

For discussion
on 12 April 2012

Information Technology and Broadcasting Panel

Report on the Cyberport Project

This paper updates Members on progress of the Cyberport Project, highlighting major public mission activities delivered by Cyberport in the past year.

Cyberport's Public Missions

2. Cyberport aims at supporting and promoting innovation and technology development in Hong Kong through the creation of a strategic cluster of information and communications technologies (ICT) and related companies as well as attracting a critical mass of professional talents. To highlight its role in supporting the Government's Digital 21 Strategy, Cyberport adopted in June 2010 in its Memorandum of Association specific company objects to give the Board of Directors and the management explicit guidance in carrying out its public missions.

3. To achieve its public missions, Cyberport has established five interdependent centres since September 2010, namely the Entrepreneurship Centre, the Technology Centre, the Collaboration Centre, the Knowledge Centre and the Campus Development Centre. The public mission activities carried out by each of the centres in the

Cyberport are reported in paragraphs 4 to 27 below.

The Entrepreneurship Centre

4. The Entrepreneurship Centre aims to nurture and strengthen ICT start-ups by offering financial assistance, support and professional services at the early stages of enterprise development. Its mission is mainly delivered through the Cyberport Creative Micro Fund (CCMF) and the Incubation Programme.

CCMF

5. Launched in August 2009, CCMF provides seed money for companies to develop innovative ICT-related products or services. Up to February 2012, CCMF has granted a total of \$3.4 million to 34 projects which demonstrate potential for development. Some projects supported by CCMF were subsequently procured by major overseas enterprises, e.g. a management system for sports activities was procured by a major US manufacturer of sports equipment and apparel, and a website for searching leisure events and activities based on users' personal interests and schedule was procured by a multinational Internet corporation. In addition, some CCMF projects have received international recognition, e.g. a system to track shipment has won the "2011 Global Startup Battle" awarded by Startup Weekend and an online discussion platform has won the "Start-Up Chile" programme awarded by the Chilean Government. Many other grantee companies have plans to continue to grow into real

businesses. In May 2011, Cyberport established the Hong Kong and Shenzhen CCMF - Young Entrepreneur Programme (CCMF-YEP) to encourage tertiary students in Hong Kong to collaborate with their Shenzhen counterparts to create innovative projects or business concepts.

The Incubation Programme

6. Cyberport's Incubation Programme aims at nurturing local ICT start-ups to turn their creative ideas into business undertakings or commercial products. Up to February 2012, the Incubation Programme has admitted 156 ICT start-ups, of which 84 are on-site incubatees each receiving a \$530,000-worth support and 72 are off-site ones each receiving a \$330,000-worth support. These incubatees have created 689 job opportunities, won 82 industry awards, and created 100 intellectual properties. Some of their achievements have attracted the attention of both local and international media.

7. In November 2011, Cyberport introduced the Network Incubation Programme to encourage non-local ICT start-ups to come to Cyberport and extend their business in the region through Hong Kong. Cyberport has set aside a budget of \$3 million to support 100 non-local start-ups from 2011 to 2014. As at February 2012, five start-ups from Shanghai have joined the programme.

The Technology Centre

8. The Technology Centre aims at bringing cutting-edge industry tools and knowledge to Hong Kong in order to develop a diversified technology-oriented local industry with a global outlook and network. Since its inception in 2003, the Technology Centre (formerly the Digital Media Centre) has supported local small and medium enterprises (SMEs) of digital entertainment through the investment of high-end production equipment, as well as provision of technical support to the production of videos, films, animations and game content for online platforms.

Digital Cinema Exchange (DCX)

9. Launched in October 2009 with funding from the Film Development Council, the DCX pilot scheme brings the latest technology of digital cinema to the local film industry, and has been well received by both the cinema operators and the audiences. Through the DCX platform, live 3D-broadcast of the 2011 Wimbledon championship games were transmitted from the United Kingdom to six Hong Kong digital cinemas in July 2011. Starting from November 2011, Cyberport has carried on the DCX service with its own funding.

10. Cyberport has also been striving to promote the adoption of Stereoscopic 3D (S3D) imaging technology in Hong Kong, which is increasingly popular among filmmakers. To this end, Cyberport partnered with YouTube to host the first ever S3D competition in Hong

Kong in June 2011. This competition has helped encourage the production of more local S3D content. Cyberport has set up a dedicated S3D channel on YouTube to showcase the entries of the competition and further drive the adoption of S3D Internet technology in Hong Kong.

Cloud Computing

11. To drive wider adoption of cloud computing in Hong Kong, the Technology Centre started in July 2011 to develop the Cyberport Cloud, which would provide a testing platform for internal use by Cyberport incubatees and alumni. The Centre has further developed a Cloud Management System to enable system administrators to access Cyberport's Cloud platform through smartphones and tablet devices.

12. Cyberport has also organised or sponsored a host of seminars and workshops to promote the development of cloud services. These events have provided many business and collaboration opportunities between Hong Kong and the Mainland. On 30 March 2012, Cyberport organised a large-scale conference involving Government and industry representatives from both Hong Kong and Mainland on cloud computing, entitled "Next Generation Information Technology and Standard Symposium", which provided a platform for ICT practitioners to share knowledge and experience on cloud computing standards, best practices, solutions and future developments; and on how the local ICT industry can ride on cloud computing technology to create and strengthen their competitive advantages.

Digital Audio Broadcasting

13. With the launch of the Digital Audio Broadcasting (DAB) services in Hong Kong in late 2011, Hong Kong has entered into a new era in public audio broadcasting services. Cyberport took the lead to organise in August 2011 a seminar on DAB technology, featuring its impacts, business opportunities and future market trends. Representatives from the three licensed DAB broadcasters shared and exchanged their professional knowledge with over 250 attendees, including industry practitioners and members of the general public.

Development of Wireless Services

14. Cyberport promotes the development of wireless services through its support for the Hong Kong Wireless Development Centre (HKWDC) located at Cyberport. The HKWDC organised in April 2011 the Biz@Smartphone & Tablet Conference 2011 during the International ICT Expo, where renowned speakers in the smartphone and tablet business shared their expert visions on the latest technology and industry trend. The event attracted over 400 industry practitioners. In the past year, the HKWDC has also organised a series of training sessions on mobile applications development for different major operating systems.

The Collaboration Centre

15. The Collaboration Centre aims at developing a reciprocal network that helps ICT SMEs explore and capture emerging business opportunities in other markets. By encouraging business alliances and talent exchanges between the Hong Kong ICT industry and its Mainland and overseas counterparts, the Collaboration Centre promotes the development of Hong Kong as a digital economy and an inclusive knowledge-based society.

16. To promote Hong Kong's ICT achievement and promote talent exchange, Cyberport joined forces with an industry association to lead a delegation to participate in the "International Soft China" exhibition held in May 2011 in Beijing, and participated in the eighth China International SME Fair held in September 2011 in Guangzhou. As an initiative under the five-year Strategic Partnership Agreement with the Shanghai Knowledge and Innovation Community (KIC) signed in April 2011, Cyberport established a representative office in Shanghai in August 2011 to help Hong Kong ICT SMEs explore business opportunities in the Mainland.

17. Cyberport has also sought international collaboration actively. In August 2011, Cyberport led a 25-person ICT delegation to Canada to explore collaboration opportunities and promote Hong Kong's ICT achievements, and took part in the Special Interest Group on Computer Graphics (SIGGRAPH) conference and exhibition. This mission

generated 30 collaborative opportunities. In August 2011, Cyberport also collaborated with Wellington Institute of Technology of New Zealand to organise the Creative Technology Workshop at Cyberport, which has facilitated exchange between multi-media professionals of the two places.

18. Locally, Cyberport signed a Memorandum of Understanding with the Hong Kong Applied Science and Technology Research Institute (ASTRI) in November 2011 for collaboration on areas ranging from research and ICT standard development, joint promotion of Hong Kong's ICT excellence, as well as sharing of offices and conference facilities in Hong Kong, Shenzhen and Shanghai.

The Knowledge Centre

19. The Knowledge Centre develops local ICT talents by organising world-class conferences and inspirational trainings and competitions, creates more ICT-related positions, and implements or supports digital inclusion initiatives.

20. Cyberport has been a venue for convergence of and interaction among ICT professionals around the world. A total of 25 conferences and events relating to ICT were held in Cyberport from February 2011 to February 2012, which attracted some 9 300 industry professionals and experts. Those conferences and events provided an opportunity and platform for ICT practitioners to share their experience and idea.

21. To cultivate advanced technological know-how among industry players, Cyberport organised or sponsored over 48 knowledge transfer and training sessions from February 2011 to February 2012, which attracted over 5 700 local ICT practitioners. These sessions introduced the development of the latest technology in various hot areas like digital media marketing, mobile advertising, digital gaming, Internet Protocol Version 6 and digital audio broadcasting, and provided useful information on patent application and technology commercialisation.

22. Cyberport launched the Hong Kong-Shanghai ICT Internship Programme 2011 in June last year, with a view to providing university students of Hong Kong with internship opportunities to work on ICT projects in multi-national corporations in Shanghai. A total of 22 intern placements were secured.

23. Cyberport's efforts to nurture ICT talents have extended beyond the Cyberport community through Cyberport's school outreach programme. Cyberport organised a wide range of youth programmes from competitions, career talks, professional talks, to campus and company visits, to arouse students' interests in pursuing a career in the ICT sector. On the digital inclusion front, Cyberport managed and organised programmes that reached out to different communities across society, educating the public on the use of ICT facilities to enhance their daily lives. Some of the programmes included community visits to Cyberport as well as sponsorship on ICT adoption initiatives.

The Campus Development Centre

24. The Campus Development Centre is responsible for the development, management and maintenance of the Cyberport offices, arcade and other facilities, with the goal of providing an inspirational and creative environment for its tenants.

25. As at the end of February 2012, the occupancy rate of Cyberport's lettable office space was 85.6%, as compared with 81.2% at the end of February 2011. There were 111 tenants, comprising 74 commercial organisations, six non-profit organizations, one government department and 30 on-site incubatees.

26. Over the years, Cyberport has attracted many well-known international companies in the ICT industry. As at the end of February 2012, 53% of Cyberport's 74 commercial tenants have non-local origins with 51% of them establishing their first foothold in Hong Kong in Cyberport. 60% of the commercial tenants are SMEs. As at February 2012, Cyberport's office tenants employed around 5 000 people.

27. As at the end of February 2012, the occupancy rate of Cyberport's lettable retail space in the Arcade was 92.1%, as compared with 89.4% at the end of February 2011.

Corporate Governance

28. Cyberport is operated by the Hong Kong Cyberport Management Company Limited (HKCMCL) under the steer of an independent Board of Directors appointed by the Government. To further enhance corporate governance, HKCMCL set up three committees, namely the Audit Committee, the Remuneration Committee and the Entrepreneurship Centre Committee, under the Board last year to advise the Board on various issues of management and governance according to their ambits.

29. Through the provision of financial, expertise and manpower support and sponsorship, HKCMCL has devoted considerable resources to nurture ICT industry start-ups and foster local talents. We propose to designate HKCMCL as a public body under the Prevention of Bribery Ordinance so as to underline HKCMCL's commitment to adhere to the highest standards of probity and corporate governance. The legislative procedures are expected to be completed before mid-2012.

Financial Performance

30. The audited accounts of the Cyberport Companies for the financial year ended 31 March 2011 (the 2010-11 Accounts) are shown at the Annex. For the 2010-11 financial year, the operating revenue (excluding Project Income from the residential development) of the

Cyberport Companies¹ was \$361 million, compared with \$353 million in 2009-10 and \$361 million in 2008-09. The operating profit before depreciation, financial costs and tax and excluding Project Income from the residential development was \$76 million² in 2010-11, compared with \$86 million in 2009-10 and \$96 million in 2008-09. Cyberport's contribution to public mission activities in 2010-11 was \$23.9 million, compared with \$21.1 million in 2009-10 and \$22.3 million in 2008-09.

31. The Project Income from the residential development was \$296.2 million in 2010-11. Further Project Income is expected to be available until around 2012-13, the actual amount of which will depend on the sales performance of the residential units. As at December 2011, the Government has received a total of about \$18.76 billion in surplus proceeds. This exceeds the Government's capital contribution of \$7.93 billion to the Project in the form of land grant for the residential development and the associated essential infrastructure development.

Project Completion

32. With only a small number of unsold residential properties

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 \$76 million is the difference obtained by subtracting "Project income" from "Operating profit before depreciation" in the Consolidated Profit and Loss Account in Annex. The numbers are \$76,271,793 for 2010/11, \$85,962,328 for 2009/10 and \$95,540,069 for 2008/09.

remaining, the Cyberport Project is now entering the final stage. In accordance with the Project Agreement, the Cyberport companies are working closely with Cyber-Port Limited (the Developer of the Cyberport Project) and Pacific Century CyberWorks Limited (the Developer's parent company) to resolve any outstanding issues before project termination. After completion of the Cyberport Project, HKCMCL will continue to carry out Cyberport's public missions.

**Office of the Government Chief Information Officer
Commerce and Economic Development Bureau
March 2012**

Annex

HONG KONG CYBERPORT DEVELOPMENT HOLDINGS LIMITED

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31ST MARCH 2011**

	Note	2009 HK\$	2010 HK\$	2011 HK\$
Revenue	1	4,336,420,824	3,078,250,284	656,786,182
Other income	1	42,918,636	23,557,151	34,086,543
		<u>4,379,339,460</u>	<u>3,101,807,435</u>	<u>690,872,725</u>
Building management expenses		(125,238,374)	(120,548,433)	(120,961,590)
Staff costs		(66,326,567)	(62,492,820)	(74,449,226)
Information technology facilities maintenance fee		(20,925,815)	(22,002,836)	(22,314,130)
Government rent and rates		(9,576,065)	(9,675,694)	(11,082,781)
Other operating expenses	2	(86,205,943)	(76,289,559)	(89,583,039)
Operating expenses before depreciation		<u>(308,272,764)</u>	<u>(291,009,342)</u>	<u>(318,390,766)</u>
Operating profit before depreciation		4,071,066,696	2,810,798,093	372,481,959
Depreciation	4	(236,723,085)	(225,341,127)	(213,309,459)
Finance costs		(199)	-	-
Profit before income tax		<u>3,834,343,412</u>	<u>2,585,456,966</u>	<u>159,172,500</u>
Income tax expenses	3	(655,396,616)	(449,063,743)	(48,344,759)
Profit for the year		<u><u>3,178,946,796</u></u>	<u><u>2,136,393,223</u></u>	<u><u>110,827,741</u></u>

HONG KONG CYBERPORT DEVELOPMENT HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEET
AS AT 31ST MARCH 2011

	Note	2009 HK\$	2010 HK\$	2011 HK\$
<u>Non-current assets</u>				
Property, plant & equipment	4	4,049,310,572	3,839,647,823	3,639,724,545
Loans receivable		-	-	-
Deferred rental receivable		16,764,569	15,183,259	13,352,423
Held-to-maturity investments	5,10	287,715,843	392,279,091	202,904,631
		<u>4,353,790,984</u>	<u>4,247,110,173</u>	<u>3,855,981,599</u>
<u>Current assets</u>				
Inventories, at cost	6	782,752	758,294	677,916
Trade and other receivables		25,230,100	21,844,834	23,670,745
Current portion of loans receivable		18,804	-	-
Designated bank balance	5,10	241,962,648	227,148,614	142,948,186
Held-to-maturity investments	5,10	100,455,241	23,142,279	305,208,290
Income tax recoverable		-	206,357,872	158,013,113
Cash and bank balances		1,063,389,619	308,561,301	398,697,865
		<u>1,431,839,164</u>	<u>787,813,194</u>	<u>1,029,216,115</u>
<u>Current liabilities</u>				
Trade and other payables		67,321,996	58,144,247	54,057,597
Current portion of finance lease liabilities		-	-	-
Rental and other deposits		57,913,293	57,361,795	54,075,187
Income tax payable		104,976,276	-	-
		<u>230,211,565</u>	<u>115,506,042</u>	<u>108,132,784</u>
Net current assets		<u>1,201,627,599</u>	<u>672,307,152</u>	<u>921,083,331</u>
Total assets less current liabilities		<u>5,555,418,583</u>	<u>4,919,417,325</u>	<u>4,777,064,930</u>
<u>Equity</u>				
Share capital	7	2	2	2
Capital reserve	8	5,284,781,233	5,286,767,502	5,286,767,502
Accumulated losses	9	(287,620,622)	(935,227,399)	(1,071,399,658)
Total equity		<u>4,997,160,613</u>	<u>4,351,540,105</u>	<u>4,215,367,846</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	50,000,000
Deferred income	11	8,257,970	17,877,220	11,697,084
		<u>558,257,970</u>	<u>567,877,220</u>	<u>561,697,084</u>
		<u>5,555,418,583</u>	<u>4,919,417,325</u>	<u>4,777,064,930</u>

HONG KONG CYBERPORT DEVELOPMENT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Revenue and other income

	2009 HK\$	2010 HK\$	2011 HK\$
<u>Revenue</u>			
Rental income	154,086,842	165,807,209	155,484,271
Building management income			
Management fee income	75,258,646	74,938,929	71,759,487
Car park fee income	7,998,543	7,149,016	6,688,058
Other facilities income	17,128,650	16,793,014	15,596,423
	100,385,839	98,880,959	94,043,968
Income from hotel operation	97,933,233	79,541,433	100,715,161
Information technology facilities income	2,368,846	3,001,667	3,242,756
Fees for usage of DMC equipment and services	4,032,652	3,727,309	4,395,457
Broadband service and installation fees	1,211,381	1,397,911	1,377,974
Other incidental income	875,404	1,058,031	1,316,429
	<u>360,894,197</u>	<u>353,414,519</u>	<u>360,576,016</u>
Project income	3,975,526,627	2,724,835,765	296,210,166
	<u>4,336,420,824</u>	<u>3,078,250,284</u>	<u>656,786,182</u>
<u>Other income</u>			
Amortisation of deferred income	17,774,190	12,409,764	15,751,331
Hotel's Gross Operating Profit performance guarantee income	-	-	8,000,000
Interest income from held-to-maturity investments, net of amortisation of premium	14,329,266	8,945,540	8,467,957
Interest income on bank deposits	6,236,927	734,537	786,410
Interest income on designated bank balance	4,535,024	1,463,925	1,007,228
Interest income on loans receivable	43,229	3,385	-
Gain on disposal of property, plant and equipment, net	-	-	73,617
	<u>42,918,636</u>	<u>23,557,151</u>	<u>34,086,543</u>
	<u>4,379,339,460</u>	<u>3,101,807,435</u>	<u>690,872,725</u>

HONG KONG CYBERPORT DEVELOPMENT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2. Other operating expenses

	2009 HK\$	2010 HK\$	2011 HK\$
Insurance			
- Hotel	398,582	418,113	298,255
- Others	2,329,778	2,374,031	1,935,718
	<u>2,728,360</u>	<u>2,792,144</u>	<u>2,233,973</u>
Professional fees	3,983,432	4,328,297	10,366,133
Marketing and corporate communication expenses	17,865,594	16,197,966	17,363,550
Travelling expenses	528,900	380,017	520,925
Transportation	480,000	480,000	480,000
Broadband service and installation expenses	829,610	939,215	999,336
Other hotel operation expenses	42,020,872	37,528,102	42,074,793
Other DMC & IncuTrain operating expenses	15,769,746	10,929,050	13,614,838
Other miscellaneous expenses	1,999,429	2,714,768	1,929,491
	<u>86,205,943</u>	<u>76,289,559</u>	<u>89,583,039</u>

3. Income tax expenses

Hong Kong profits tax has been provided at the rate of 16.5% 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	Building services and support facilities	Information technology facilities	DMC, IRC and IncuTrain equipment	Leasehold improvements	Furniture and equipment	Motor vehicles	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Cost								
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
Handover from Developer	-	-	10,602,806	-	2,997,150	1,471,874	-	15,071,830
Additions	-	-	484,504	312,502	733,653	7,922,281	-	9,452,940
Disposals	-	-	-	-	-	(85,700)	-	(85,700)
At 31 March 2009	3,832,061,688	1,153,135,618	257,052,678	58,529,801	11,887,077	30,281,101	702,668	5,343,650,631
Handover from Developer	-	-	19,825	-	-	1,966,444	-	1,986,269
Additions	-	-	516,329	1,253,371	2,544,937	9,071,743	389,868	13,776,248
Disposals	-	(148,232)	(1,832,204)	(38,868)	-	(3,333)	-	(2,022,637)
At 31 March 2010	3,832,061,688	1,152,987,386	255,756,628	59,744,304	14,432,014	41,315,955	1,092,536	5,357,390,511
Handover from Developer	-	-	-	-	-	-	-	-
Additions	-	-	465,210	191,100	4,785,676	7,984,168	-	13,426,154
Disposals	-	(15,888)	(762,378)	-	-	(205,466)	(294,654)	(1,278,386)
At 31 March 2011	3,832,061,688	1,152,971,498	255,459,460	59,935,404	19,217,690	49,094,657	797,882	5,369,538,279
Accumulated depreciation								
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
Charge for the year	83,098,299	115,313,562	24,140,507	9,503,060	1,174,974	3,487,772	4,911	236,723,085
Disposals	-	-	-	-	-	(13,652)	-	(13,652)
At 31 March 2009	413,484,339	589,279,248	221,800,035	53,605,989	3,883,839	11,583,941	702,668	1,294,340,059
Charge for the year	83,098,299	115,298,739	16,601,278	4,834,081	1,140,509	4,368,221	-	225,341,127
Disposals	-	(66,704)	(1,832,204)	(38,868)	-	(722)	-	(1,938,498)
At 31 March 2010	496,582,638	704,511,283	236,569,109	58,401,202	5,024,348	15,951,440	702,668	1,517,742,688
Charge for the year	83,098,299	115,297,282	7,980,755	602,779	1,358,992	4,899,876	71,476	213,309,459
Disposals	-	(9,665)	(762,378)	-	-	(171,716)	(294,654)	(1,238,413)
At 31 March 2011	579,680,937	819,798,900	243,787,486	59,003,981	6,383,340	20,679,600	479,490	1,729,813,734
Net book value								
At 31 March 2009	3,418,577,349	563,856,370	35,252,643	4,923,812	8,003,238	18,697,160	-	4,049,310,572
At 31 March 2010	3,335,479,050	448,476,103	19,187,519	1,343,102	9,407,666	25,364,515	389,868	3,839,647,823
At 31 March 2011	3,252,380,751	333,172,598	11,671,974	931,423	12,834,350	28,415,057	318,392	3,639,724,545

5. It represents a fund received by the Group in accordance with the terms of the Project Agreement for the purpose of financing the upkeep and maintenance of the Shared Cyberport Facilities. This 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 comprising good, beverage and operating supplies, are stated at the lower of cost and net realisable value. Costs are calculated using weighted average costing method. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

HONG KONG CYBERPORT DEVELOPMENT HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

7. Share capital

	2009 HK\$	2010 HK\$	2011 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, property, plant and equipment were handed over to the Group, resulting in a capital reserve.

	2009 HK\$	2010 HK\$	2011 HK\$
At the beginning of the year	5,269,709,403	5,284,781,233	5,286,767,502
Handover of plant and equipment	15,071,830	1,986,269	-
At the end of the year	<u>5,284,781,233</u>	<u>5,286,767,502</u>	<u>5,286,767,502</u>

9. Accumulated losses carried forward

	2009 HK\$	2010 HK\$	2011 HK\$
Accumulated profits before depreciation	3,835,719,437	3,366,515,289	905,414,076
Accumulated depreciation	<u>(1,294,340,059)</u>	<u>(1,517,742,688)</u>	<u>(1,729,813,734)</u>
Accumulated profits after depreciation	2,541,379,378	1,848,772,601	(824,399,658)
Dividend	<u>(2,829,000,000)</u>	<u>(2,784,000,000)</u>	<u>(247,000,000)</u>
Accumulated losses carried forward	<u>(287,620,622)</u>	<u>(935,227,399)</u>	<u>(1,071,399,658)</u>

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.

HONG KONG CYBERPORT DEVELOPMENT HOLDINGS LIMITED

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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\$
<u>Cost</u>			
At 31 March 2008	51,525,341	38,868,769	90,394,110
Additions	11,354,775	3,259,910	14,614,685
Refund	(33,137)	-	(33,137)
At 31 March 2009	62,846,979	42,128,679	104,975,658
Additions	19,023,533	3,305,195	22,328,728
Written-off of projects completed	(28,026,060)	(41,546,089)	(69,572,149)
Refund	(299,714)	-	(299,714)
At 31 March 2010	53,544,738	3,887,785	57,432,523
Additions	8,844,012	3,445,751	12,289,763
Written-off of projects completed	(5,400,832)	(2,709,852)	(8,110,684)
Refund	(2,718,568)	-	(2,718,568)
At 31 March 2011	54,269,350	4,623,684	58,893,034
<u>Accumulated amortisation</u>			
At 31 March 2008	(40,435,633)	(38,507,865)	(78,943,498)
Credited to profit and loss account	(14,175,597)	(3,598,593)	(17,774,190)
At 31 March 2009	(54,611,230)	(42,106,458)	(96,717,688)
Credited to profit and loss account	(9,574,829)	(2,834,935)	(12,409,764)
Written-off of projects completed	28,026,060	41,546,089	69,572,149
At 31 March 2010	(36,159,999)	(3,395,304)	(39,555,303)
Credited to profit and loss account	(12,287,615)	(3,463,716)	(15,751,331)
Written-off of projects completed	5,400,832	2,709,852	8,110,684
At 31 March 2011	(43,046,782)	(4,149,168)	(47,195,950)
<u>Carrying amount</u>			
At 31 March 2009	8,235,749	22,221	8,257,970
At 31 March 2010	17,384,739	492,481	17,877,220
At 31 March 2011	11,222,568	474,516	11,697,084

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12. Post balance sheet event

A development maintenance fund is established with the purpose for upkeep and maintenance of the Shared Cyberport facilities pursuant to the Project Agreement. The level of the fund, the Development Maintenance Amount (the "DMA"), was originally set at HK\$200 million in the Project Agreement. The DMA was revised to HK\$500 million following the Provisional Assessment in November 2003.

A dispute arose between Cyber-Port Limited as the Developer and PCCW Limited, and the Company, Hong Kong Cyberport (Ancillary Development) Limited and Hong Kong Cyberport Management Company Limited, the Company's subsidiaries (collectively, the "Parties") as to the final assessment of the DMA under the Project Agreement.

On 1st August 2011, following a mediation process, the Parties entered into a settlement agreement whereby the Parties agreed that the DMA should be revised to HK\$451 million. The effect of revising the DMA is that HK\$49 million will be returned to the operating account of the Cyberport project.