



Pacific Century  
Premium Developments  
盈科大衍地產發展

STOCK CODE: 00432

ANNUAL REPORT 2008

# Showcasing Excellence



The name **Pacific Century Premium Developments** signifies the company's sharp focus on the high-end segment of property markets in the region.

In Chinese, the name takes on a more aspirational meaning that invites reflection on the company's origins and progress to the present day, as well as its ambitions for the future.

The structure of the name contains a reference to rivers and streams leading to the sea. According to ancient literature, all such waterways share that destiny and tend to be individually active and dynamic in making their way to the coast, where they finally achieve success together.

The Chinese version of PCPD's name also symbolises vigorous growth into prosperity and can be likened to acorns developing into oak trees, which are well known for their towering size, solid stature and longevity. Interestingly, this analogy is very similar to the popular English saying: 'From tiny acorns do mighty oak trees grow'.

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# CORPORATE PROFILE

MAJORITY-OWNED BY PCCW LIMITED (“PCCW”), PACIFIC CENTURY PREMIUM DEVELOPMENTS LIMITED (“PCPD” OR THE “GROUP”, SEHK: 00432) IS PRINCIPALLY ENGAGED IN THE DEVELOPMENT AND MANAGEMENT OF PREMIUM PROPERTY AND INFRASTRUCTURE PROJECTS, AS WELL AS INVESTMENT IN PREMIUM-GRADE BUILDINGS, IN THE ASIA-PACIFIC REGION.

## PROPERTY DEVELOPMENT AND INVESTMENT

*PCPD holds development rights for the Cyberport project, which is owned by the Government of the Hong Kong Special Administrative Region and includes the prestigious Bel-Air residential landmark development. The Group's high-end residential development, ONE Pacific Heights, is currently in progress in the west of Central.*

*In mainland China, our development of luxury residential accommodation continues in Beijing's Chaoyang district adjacent to the Group's premium-grade investment property, Pacific Century Place.*

*As part of our ongoing exploration of development potential in Hong Kong, mainland China and other parts of Asia Pacific, the Group has drawn up long-term plans to develop world-class all-season luxury resorts at Hokkaido in Japan, where the ski operation has already been established, and at Phang-nga in southern Thailand.*

## PROPERTY AND FACILITIES MANAGEMENT

*Holding significant experience and expertise, the Group's Property and Facilities Management division specialises in providing the Group and external clients in Hong Kong and mainland China with facilities, property and asset management services, as well as corporate services. These are provided in relation to grade-A commercial buildings, retail and infrastructure complexes, along with mission-critical telephone exchanges and luxury residential properties.*



# STATEMENT FROM THE CHAIRMAN

WE WILL CONTINUE OUR  
WORLDWIDE PURSUIT OF  
INVESTMENT  
OPPORTUNITIES THAT  
SHOW SIGNIFICANT  
GROWTH POTENTIAL.



Hong Kong has experienced a relatively long run of robust economic growth, as the local economy expanded over the last few years. However, the global financial tsunami is now having a profoundly negative effect on the territory, evidenced by a fall in GDP growth from 1.7% in the third quarter of 2008 to minus 2.5% in the fourth quarter. This heralds the possibility of Hong Kong entering a period of negative growth in 2009, giving rise to a short period of uncertainty for the property sector.

However, with solid fundamentals established over the years, comparatively low mortgage and

interest rates and a limited supply of premium residential accommodation, the long-term outlook for Hong Kong's luxury property market could be promising.

While adopting a prudent and cautiously optimistic approach to our business, we will continue to focus on PCPD's large-scale projects in Beijing in China, Hokkaido in Japan and Phang-nga in southern Thailand, where we plan to create distinctive landmark developments. We will also continue our worldwide pursuit of investment opportunities that show significant growth potential.

Finally, I would like to take this opportunity to thank our directors, management team and staff for their unwavering efforts during the year.

A handwritten signature in black ink, consisting of a large, stylized 'R' followed by a smaller 'L' and a flourish.

Richard Li  
Chairman

April 21, 2009

# STATEMENT FROM THE CHIEF EXECUTIVE OFFICER

I AM CONFIDENT THAT  
PCPD TEAM WILL  
CONTINUE TO  
DEMONSTRATE SKILLS,  
EXPERIENCE, PASSION AND  
VISION IN SEEKING OUT  
OPPORTUNITIES DURING  
THESE CHALLENGING  
TIMES.





I am pleased to report that the Group's consolidated turnover for the year ended December 31, 2008 was approximately HK\$9,943 million, compared with HK\$3,134 million for 2007. Consolidated operating profit before investment properties revaluation deficit for 2008 was approximately HK\$1,227 million, comparing to HK\$714 million for 2007. Consolidated net profit for 2008 reached HK\$513 million, compared with the previous year's HK\$784 million. Basic earnings per share for the year were 21.29 Hong Kong cents, compared with 32.59 Hong Kong cents for

2007. The increase in turnover was mainly the result of more revenue being recognised, as one major phase of Bel-Air project completed during the current year.

The board of directors ("the Board") does not recommend a final dividend for the year ended December 31, 2008.

After a long period of economic buoyancy in Hong Kong, we are now operating in a distinctly unfavorable environment brought about by the global financial turmoil and the prospect of an international recession for the whole of 2009.

However, as a player in Hong Kong's premium residential development market, PCPD is cautiously optimistic over the long-term prospects of the luxury property market.

Limited supply of high-end properties in Hong Kong, relatively low mortgage and interest rates and the fiscal stimulus package offered by the Government of Hong Kong all contribute to sustaining demand for premium residential accommodation in Hong Kong. We have confidence in the territory's ability to weather the current financial storm and rebound in good shape to face the future.



Hanazono 308 Snowsports Centre

Handover to purchasers of luxury residential units at Bel-Air No.8 began in mid-November 2008. The houses at Villa Bel-Air are expected to be released to the market gradually over the next two years.

The 155 units at ONE Pacific Heights, located west of Central, Hong Kong, were all sold following launch in June 2008. Progress of this 39-storey project, which consists of boutique apartments ranging from 531 to 1,004 square feet in size, has been steady and completion is scheduled for around mid of 2009.

At the regional level, markets are likely to see adjustments as a result of the global recession – but underlying long-term drivers and economic growth prospects are expected to carry most Asia-Pacific property markets back into growth in the short term.

In mainland China, our luxury residential development in Beijing's Chaoyang district is scheduled for completion in 2010. Located next to our Pacific Century Place, our

premium-grade investment property in Beijing, the complex will produce about 210 luxury apartments covering a gross floor area of about 40,300 square metres.

Furthermore, steady progress is being made on our long-term projects to develop world-class all-season luxury resorts at Hokkaido in Japan and Phang-nga in southern Thailand. Master layout plans and marketing strategies are currently being formulated.



In conclusion, I am confident that our staff and management will continue to demonstrate skills, experience, passion and vision in seeking out opportunities during these challenging times.

A handwritten signature in black ink, appearing to read 'R. Lee'.

Robert Lee  
*Chief Executive Officer*

April 21, 2009

# MANAGEMENT'S DISCUSSION AND ANALYSIS

A management's discussion and analysis of the audited consolidated financial results and operations relating to the business of Pacific Century Premium Developments Limited (the "Company") and its subsidiaries (the "Group") for the year ended December 31, 2008 follows below:

## **BUSINESS REVIEW**

### *Property development*

Revenue from the property development during the financial year ended December 31, 2008 amounted to approximately HK\$9,557 million, compared with approximately HK\$2,800 million for the previous year.

In June 2008, the ninth batch of net surplus proceeds from the Cyberport project, totalling HK\$555 million, was allocated between the Government of the Hong Kong Special Administrative Region ("HKSAR") and the Group. An amount of approximately HK\$358 million was paid to the HKSAR Government, in accordance with the Cyberport Project Agreement, while the Group retained approximately HK\$197 million.

Subsequent to December 31, 2008, the tenth batch of net surplus proceeds from the Cyberport project, totalling HK\$5,604 million, was allocated between HKSAR Government and the Group in February 2009. An amount of approximately HK\$3,617 million was paid to the HKSAR Government, in accordance with the Cyberport Project Agreement, while the Group retained approximately HK\$1,987 million.

Handover to purchasers of luxury residential units at Bel-Air No.8 began around mid-November 2008. The houses at Villa Bel-Air are expected to be released to the market gradually over the next two years.

The Group's redevelopment project, named ONE Pacific Heights and located in Wo Fung Street to the west of Central, will comprise 155 luxury boutique apartments, with completion scheduled for around mid of 2009.

Meanwhile in mainland China, progress has been made on the Group's prestigious residential project at Lot No.4 Gong Ti Bei Lu in Beijing's Chaoyang District. With approximately 210 upmarket units planned, the project is scheduled for completion in 2010 and is expected to create synergies with the Group's adjacent property, Pacific Century Place.

### *Property investment*

Covering a gross floor area of more than 169,900 square metres, the Group's investment property, Pacific Century Place, is currently home to many multinational corporations, world-class retailers and residential tenants. Pacific Century Place enjoyed an average occupancy rate of 78 per cent for the year ended December 31, 2008.

In 2008, the Group has disposed of two subsidiaries that hold two investment properties in Hong Kong to a wholly-owned subsidiary of PCCW Limited ("PCCW") at a total consideration of HK\$51 million. The Group recorded a net gain of HK\$4 million for the disposal.

The Group's gross rental income for 2008 amounted to approximately HK\$230 million, compared with approximately HK\$235 million for 2007.

#### *Other businesses*

Other businesses of the Group include property and facilities management, corporate and asset management services, as well as ski operation. Revenue from other businesses for 2008 amounted to approximately HK\$156 million, compared with approximately HK\$99 million for the previous year.

### FINANCIAL REVIEW

#### *Review of results*

The Group recorded a consolidated turnover of approximately HK\$9,943 million for 2008, representing an increase of 217 per cent compared with approximately HK\$3,134 million for 2007. The increase in turnover was mainly the result of more revenue being recognised, as one major phase of Bel-Air project completed during the current year.

The Group's consolidated gross profit for 2008 was approximately HK\$1,762 million, representing an increase of 60 per cent from a gross profit of approximately HK\$1,103 million for 2007. The increase in consolidated gross profit was given rise by the increase in turnover.

The Group's consolidated operating profit before investment properties revaluation deficit for 2008 was approximately HK\$1,227 million, comparing to HK\$714 million for 2007.

The Group recorded consolidated net profit of approximately HK\$513 million for 2008, representing a decrease of 35 per cent compared with consolidated net profit of approximately HK\$784 million for 2007. The decrease was mainly attributable to the deficit on revaluation of investment properties. Basic earnings per share for 2008 were 21.29 Hong Kong cents compared with 32.59 Hong Kong cents for 2007.

In accordance with the applicable HKFRS issued by the HKICPA, revenue and profits from the sale of property development are recognised on completion of development, when the inflow of economic benefits associated with the property sales transactions is assessed to be probable and significant risks and rewards of ownership have been transferred.

#### *Current assets and liabilities*

As at December 31, 2008, the Group held current assets of approximately HK\$13,825 million (December 31, 2007: HK\$14,406 million), comprising mainly sales proceeds held in stakeholders' accounts, properties under development/held for sale, trade receivables and cash and bank balances. The decrease in current assets was attributable to a decrease in properties under development/held for sale. Sales proceeds held in stakeholders' accounts were increased by 188 per cent from approximately HK\$2,425 million as at December 31, 2007 to approximately HK\$6,994 million as at December 31, 2008.

Properties under development/held for sale in current assets decreased from approximately HK\$9,133 million as at December 31, 2007 to approximately HK\$2,402 million as at December 31, 2008. Trade receivables increased from approximately HK\$332 million as at December 31, 2007 to approximately HK\$1,918 million as at December 31, 2008. Cash and bank balances amounted to approximately HK\$1,654 million as at December 31, 2008 (December 31, 2007: HK\$1,865 million).

Total current liabilities as at December 31, 2008 amounted to approximately HK\$7,428 million, compared with approximately HK\$8,592 million as at December 31, 2007.

#### *Capital structure, liquidity and financial resources*

As at December 31, 2008, the Group's total borrowings amounted to approximately HK\$2,645 million, representing an increase of HK\$49 million compared with total borrowings of approximately HK\$2,596 million as at December 31, 2007. As at December 31, 2008, all the Group's borrowings were from PCCW group, representing the tranche B convertible note of HK\$2,420 million carrying a fixed interest rate of 1 per cent per annum and becoming repayable at 120 per cent of the outstanding principal amount at maturity in 2014. Gearing ratio is not provided as all borrowings are from the Company's majority shareholder, PCCW.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As at December 31, 2007, the Group held a banking facility of approximately HK\$20 million for the purpose of providing a guarantee to the HKSAR Government in relation to the Cyberport project. There was no such banking facility as at December 31, 2008.

The Group's business transactions, assets and liabilities were primarily denominated in Hong Kong dollars. Renminbi-denominated revenue represented approximately 2 per cent of the Group's total turnover, while PRC, Thailand and Japan assets represented approximately 25 per cent, 3 per cent and 2 per cent of the Group's total assets respectively.

All the Group's borrowings were denominated in Hong Kong dollars. Cash and bank balances were held mainly in Hong Kong dollars, with the remaining balance in US dollars, Renminbi, Thai Baht and Japanese Yen. As the Group has certain investment in foreign operations, net assets are exposed to foreign currency translation risks. The Group's currency exposure in respect of these operations is mainly from Renminbi, Thai Baht and Japanese Yen.

Cash used for operating activities in 2008 was approximately HK\$155 million, while cash used for operating activities in 2007 was approximately HK\$572 million.

### *Income tax*

Income tax expense for 2008 was approximately HK\$128 million compared with income tax expense for 2007 was approximately HK\$86 million. The increase of income tax was mainly due to increase in taxable profit for the current year.

### *Contingent liabilities*

As at December 31, 2008, the Group had an outstanding performance guarantee of approximately HK\$1 million granted to the HKSAR Government for certain entrustment works in relation to the Cyberport project (December 31, 2007: HK\$1 million).

### **EMPLOYEES AND REMUNERATION POLICIES**

As at December 31, 2008, the Group employed 517 staff, most of whom were based in Hong Kong. The Group's remuneration policies, which are in line with prevailing industry practices, have been formulated on the basis of performance and experience and are reviewed regularly. Bonuses are paid on a discretionary basis, according to individual and Group performance. The Group also provides comprehensive benefits including medical insurance, choice of provident fund or mandatory provident fund and training programmes.

The Company's share option scheme adopted on March 17, 2003 was terminated on May 13, 2005 and replaced by a new share option scheme which was adopted on May 23, 2005, following approval from PCCW's shareholders. The new share option scheme is valid and effective for a period of 10 years from the date of adoption.

### **DIVIDENDS**

The Board did not recommend the payment of a final dividend for the year ended December 31, 2008 (2007: Nil).

The Board did not declare an interim dividend for the six months ended June 30, 2008 (2007: 1.5 Hong Kong cents per ordinary share).

### **CLOSURE OF REGISTER OF MEMBERS**

The Company's register of members will be closed from June 8, 2009 to June 11, 2009, both days inclusive, during which period no transfer of shares will be effected. In order to be entitled to attend and vote at the forthcoming annual general meeting of the Company, all transfers, accompanied by the relevant share certificates, should be lodged with the branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on June 5, 2009.

## OUTLOOK

The Hong Kong property market enjoyed healthy growth in the past few years. However, the global financial tsunami arising in the second half of 2008 has created the volatile local stock market and uncertain economic outlook for 2009.

Despite all the negative issues, continued shortage of high-end luxury premises, relatively low mortgage and interest rates and the fiscal stimulus package offered by the HKSAR Government and PRC Government will continue to sustain demand and prices for luxury residential accommodation in Hong Kong. With this in mind, the Group's long-term economic outlook remains cautiously optimistic.

Development plans for luxury resort complexes in Thai Muang Beach, Phang-nga in southern Thailand, represent long-term expansion prospects for the Group. Steady progress has also been made on the development of world-class all-season resorts at Hanazono, Hokkaido in Japan, where the ski operation has already been established. In addition, the Group's first telephone exchange redevelopment project, ONE Pacific Heights, is scheduled for

completion for around mid of 2009, while the luxury residential development in the Chaoyang district of Beijing in mainland China is scheduled for completion in 2010.

The Group continues to identify opportunities of high-value potential, with a view to strengthening the Group's business portfolios. Prudent approach will be maintained and the Group will continue to explore substantial growth opportunities in the Asia-Pacific region and other parts of the world.

# BOARD OF DIRECTORS



**LI Tzar Kai, Richard**  
*Chairman*



**Alexander Anthony ARENA**  
*Deputy Chairman*



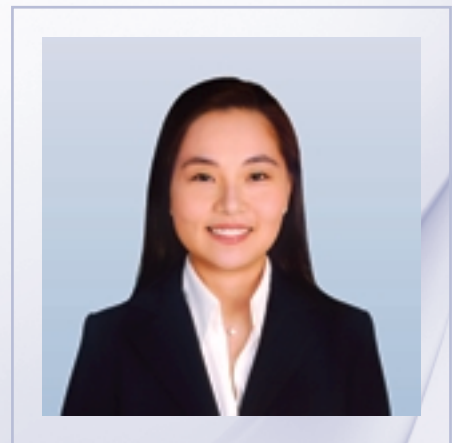
**LEE Chi Hong, Robert**  
*Executive Director and  
Chief Executive Officer*



**LAM Yu Yee**  
*Executive Director*



**James CHAN**  
*Executive Director*



**GAN Kim See, Wendy**  
*Executive Director*



## EXECUTIVE DIRECTORS

### **LI Tzar Kai, Richard**

#### *Chairman*

Aged 42, is the chairman of Pacific Century Premium Developments Limited ("PCPD"), chairman of PCPD's Executive Committee, a member of PCPD's Remuneration Committee and Nomination Committee. He is also the chairman of PCCW Limited ("PCCW"), chairman of PCCW's Executive Committee, chairman and chief executive of the Pacific Century Group and chairman of Singapore-based Pacific Century Regional Developments Limited ("PCRD"). He became a director of PCPD in May 2004.

Mr Li is a non-executive director of The Bank of East Asia, Limited. He is a representative of Hong Kong, China to the Asia Pacific Economic Co-operation Business Advisory Council, a member of the Center for Strategic and International Studies' International Councillors' Group in Washington, D.C. and a member of the Global Information Infrastructure Commission.

### **Alexander Anthony ARENA**

#### *Deputy Chairman*

Aged 58, is an executive director and the deputy chairman of PCPD and a member of PCPD's Executive Committee. He is also the group managing director of PCCW, deputy chairman of PCCW's Executive Committee and a director of PCRD. He became a director of PCPD in May 2004.

Prior to joining the Pacific Century Group in 1998, Mr Arena was a Special Policy Adviser to the Hong Kong Government from 1997 to 1998. From 1993 to 1997, he was Director-General of Telecommunications at the Office of the Telecommunications Authority ("OFTA") of Hong Kong, as well as a member of the Broadcasting Authority of Hong Kong.

Before taking up his post at OFTA, Mr Arena was appointed by the Hong Kong Government to plan a reform program for the liberalization of Hong Kong's telecommunications sector. Prior to his appointment to the Hong Kong Government, he served as an inaugural member of the Australian Telecommunications Authority for four years. He has led an extensive career in public administration, specializing in high technology and infrastructure industries.

From a practising radio/communications engineer to a public policy maker, his experience spans such diverse areas as commercialization of government-owned business enterprises and deregulation in the aviation, transport, telecommunications and postal industries.

Mr Arena graduated from University of New South Wales, Australia, with a bachelor's degree in electrical engineering. He completed an MBA at Melbourne University, Australia, and is a Fellow of the Hong Kong Institution of Engineers.

Mr Arena was an executive director and the chairman of SUNDAY Communications Limited (listing of its shares on the Stock Exchange was withdrawn with effect from December 20, 2006 and the company was subsequently dissolved on March 30, 2007) from July 2005 to December 2006.

## BOARD OF DIRECTORS

### LEE Chi Hong, Robert

Aged 57, is an executive director and the chief executive officer of PCPD and a member of PCPD's Executive Committee. He joined PCCW in August 2002, and is an executive director of PCCW and a member of PCCW's Executive Committee. He became a director of PCPD in May 2004.

Mr Lee was previously an executive director of Sino Land Company Limited ("Sino Land"), at which his responsibilities included sales, finance, acquisitions, investor relations, marketing and property management. Prior to joining Sino Land, he was a senior partner at Deacons in Hong Kong, where he specialised in banking, property development, corporate finance and dispute resolution in Hong Kong and mainland China. Before that, he was a solicitor with the London firm Pritchard Englefield & Tobin. He was enrolled as a solicitor in the UK in 1979 and admitted as a solicitor in Hong Kong in 1980. He became a Notary Public in Hong Kong in 1991.

Mr Lee has also served as a member of the panel of arbitrators of the China International Economic and Trade Arbitration Commission of the China Council for the Promotion of International Trade in Beijing.

Mr Lee graduated from Cornell University in 1975 with a bachelor's degree in Political Science.

### LAM Yu Yee

Aged 48, is an executive director and the deputy chief executive officer of PCPD. He joined PCPD in September 2004 and became a director of PCPD in September 2007.

Prior to joining PCPD Mr Lam was the chief financial officer of Asia Pacific Resources International Limited in Singapore in 2003 and was appointed as its president of China Operations in April 2004. Between 1999 to 2003, he was an executive director and the group chief financial officer of Sino Land. Prior to joining Sino Land, he had worked in various financial institutions for over ten years and had substantial experience in corporate finance and investment banking.

Mr Lam holds a Bachelor of Science degree in Industrial Engineering from The University of Hong Kong ("HKU") and a Master of Business Administration degree from the Manchester Business School.

### James CHAN

Aged 55, is an executive director and the project director of PCPD. He became a director of PCPD in August 2005.

Mr Chan is responsible for the project execution of the Cyberport project and has overall responsibility for all aspects of the construction works. He is also responsible for carrying out various new property projects of PCPD and its subsidiaries in Hong Kong and the People's Republic of China ("PRC").

Prior to joining PCCW in October 2002, Mr Chan had been practising as an architect and working for a major developer in Hong Kong for 14 years, with comprehensive experience in design, planning and land matters, design development and construction management of major investment properties in that developer's portfolio, which included a wide range of industrial and warehousing, commercial, retail and residential developments in Hong Kong and overseas. He possesses a wide spectrum of experience in the property industry and has been active in the property business for more than 31 years.

Mr Chan holds a Bachelor of Arts in Architectural Studies degree from the HKU and a Bachelor of Arts in Architecture degree from University of Dundee in Scotland. He is qualified as the Authorized Person (List I) and Registered Architect in Hong Kong, and is a member of The Hong Kong Institute of Architects, The Royal Institute of British Architects and The Royal Australian Institute of Architects.

### **GAN Kim See, Wendy**

Aged 44, is an executive director and the sales and marketing director of PCPD. She became a director of PCPD in August 2005.

Ms Gan is responsible for the overall sales and marketing of PCPD's property assets, in particular the residential portion of the Cyberport project, Bel-Air.

Before joining PCCW in November 2000, Ms Gan was head of sales and marketing at Swire Properties Limited, looking after that company's portfolio of residential, office and retail developments. She has more than 21 years' experience in property development and management and expertise in the sales and marketing of projects in Hong Kong and overseas.

Her marketing campaigns have received top honours at the HKMA/TVB Marketing Excellence Award for three years, a MAXI Award from the International Council of Shopping Centers, several HK 4A's Awards and the 2004 and 2005 Hong Kong Institute of Surveyors' top awards in property marketing.

Ms Gan holds a Bachelor of Arts degree with First Class Honours from the HKU and is currently a member of the Council and Court of HKU. She also sits on the Management Board of the HKU School of Professional and Continuing Education and is a Senior Member of the HKU Foundation for Educational Development and Research. She has also received a Diploma in Surveying from the College of Estate Management, UK and is a

member of the Royal Institution of Chartered Surveyors, the Hong Kong Institute of Surveyors and the Hong Kong Real Estate Developers Association. In 2008, she has obtained an Executive Master of Business of Administration degree jointly awarded by the Kellogg School of Management of the Northwestern University in USA and the Business School of the Hong Kong University of Science and Technology.

### **NON-EXECUTIVE DIRECTORS**

#### **CHEUNG Kin Piu, Valiant**

Aged 63, is an independent non-executive director of PCPD and the chairman of PCPD's Remuneration Committee and a member of PCPD's Audit Committee and Nomination Committee. He became a director of PCPD in October 2004.

Mr Cheung had been a partner at KPMG, a leading international accounting firm in Hong Kong, until his retirement in March 2001. He has extensive experience in assurance and corporate finance work, particularly in trading and manufacturing corporations in Hong Kong and the PRC, and has assisted a number of companies in obtaining stock exchange listings in Hong Kong, the PRC, Singapore and the United States. In addition, he has provided financial advisory and due diligence services to foreign investors on investments in the PRC. He is a fellow member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants. He is currently an independent non-executive director of two other listed companies in Hong Kong Dah Chong Hong Holdings Limited and The Bank of East Asia, Limited. In addition, he is also an independent non-executive director of unlisted Bank of East Asia (China) Limited, a wholly-owned subsidiary of The Bank of East Asia, Limited. He was an independent non-executive director of Wing Shan International Limited from March 2004 to January 2009 and of Dream International Limited from October 2001 to May 2008.

## BOARD OF DIRECTORS

### **TSANG Link Carl, Brian**

Aged 45, is an independent non-executive director of PCPD and a member of PCPD's Audit Committee. He became a director of PCPD in October 2002.

Mr Tsang is a practising solicitor in Hong Kong and a partner of the Hong Kong law firm Iu, Lai & Li. He graduated from King's College, London with an LL.B. degree in 1985. He has also been admitted to practise law in England and Wales, Singapore as well as New South Wales, Queensland and the Australian Capital Territory in Australia. He is also an independent non-executive director of CITIC Resources Holdings Limited and Walker Group Holdings Limited, both are companies listed on the Main Board of the Stock Exchange and a non-executive director of Midland IC&I Limited, a company listed on the Main Board of the Stock Exchange.

In 2005, Mr Tsang was appointed as an adjudicator of the Registration of Persons Tribunal. In 2006, he has also been appointed as a member of Disciplinary Panel of the Hong Kong Institute of Certified Public Accountants and a member of the Appeal Panel on Housing.

### **Prof WONG Yue Chim, Richard, SBS, JP**

Aged 56, is an independent non-executive director of PCPD and the chairman of PCPD's Audit Committee and a member of PCPD's Remuneration Committee and Nomination Committee. He became a director of PCPD in July 2004.

Prof Wong currently serves as Deputy Vice-Chancellor of the HKU. He has been active in advancing economic research on policy issues in Hong Kong and the PRC through his work as founding director of both The Hong Kong Centre for Economic Research and Hong Kong Institute of Economics and Business Strategy. He was awarded the Silver Bauhinia Star in 1999 by the Government of the Hong Kong Special Administrative Region for his contributions in education, housing, industry and technology development. In addition, he was appointed Justice of the Peace in July 2000. He studied Economics at the University of Chicago and graduated with a Doctorate in Philosophy.

Prof Wong is currently an independent non-executive director of five other listed companies in Hong Kong: CK Life Sciences Int'l., (Holdings) Inc., Great Eagle Holdings Limited, Industrial and Commercial Bank of China (Asia) Limited, Orient Overseas (International) Limited and Sun Hung Kai Properties Limited. He is also an independent non-executive director of The Link Management Limited, the manager of The Link Real Estate Investment Trust. He has also served as an independent non-executive director of Pacific Century Insurance Holdings Limited (formerly a listed company in Hong Kong) from June 1999 to June 2007.

### **Dr Allan ZEMAN, GBS, JP**

Aged 60, is an independent non-executive director of PCPD and the chairman of PCPD's Nomination Committee. He became a director of PCPD in June 2004.

After spending more than 39 years in Hong Kong, Dr Zeman has established business interests in Hong Kong and overseas that include property development, entertainment and public relations.

Dr Zeman is the chairman of Ocean Park, a major theme park in Hong Kong. He is also the chairman of Lan Kwai Fong Holdings Limited, the major property owner and developer in Lan Kwai Fong, one of Hong Kong's popular tourist attractions.

Dr Zeman serves as a board member of the Hong Kong Arts Festival, the Hong Kong Community Chest, the Urban Renewal Authority and the West Kowloon Cultural District Authority ("WKCDA"). He is also a member of the Tourism Strategy Group for the Hong Kong Tourism Commission, the Business Facilitation Advisory Committee, the Food Business Task Force for the Business Facilitation Advisory Committee, Commission

on Strategic Development to serve on Economic Development and Economic Cooperation with Mainland, the Consultation Panel of the WKCDA, the Chairman of the Performing Arts Committee of the WKCDA, the Development Committee of the WKCDA and the Investment Committee of the WKCDA. He is also a member of the Board of Governors of the Canadian Chamber of Commerce and the Hong Kong General Chamber of Commerce and a member of the Asian Advisory Board of the Richard Ivey School of Business.

Dr Zeman is currently a director of The "Star" Ferry Company, Limited, an independent non-executive director of The Link Management Limited, Sino Land and Tsim Sha Tsui Properties Limited. He is also a director of Wynn Resorts, Limited, a listed company in the United States.

*The interests of PCPD's directors in the shares of PCPD and PCCW, the associated corporation of PCPD, within the meaning of Part XV of the Securities and Futures Ordinance as at December 31, 2008, are disclosed in "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" in the Report of the Directors.*

*The emoluments of PCPD's directors have been determined with reference to their responsibilities, experience and qualifications. The details of the emoluments of PCPD's directors on a named basis for the year ended December 31, 2008 are set out in note 9 to the consolidated financial statements.*

*Based on the written confirmations from the directors of PCPD, as at December 31, 2008, save as disclosed above, each director of PCPD (a) did not hold other positions in PCPD and its subsidiaries; (b) have not held other directorships in any listed public companies in the last three years; and (c) did not have relationship with any of the other directors, senior management or substantial or controlling shareholder of PCPD.*

# CORPORATE GOVERNANCE REPORT

The Group has made continued efforts to incorporate the key elements of sound corporate governance in its management structure and internal procedures. The Group is committed to high standards of ethics and integrity in all aspects of its business and to ensuring that its affairs are conducted in accordance with applicable laws and regulations and for the benefit and in the interests of shareholders of the Company.

## CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with all the applicable code provisions contained in the Code on Corporate Governance Practices (the “Code”) set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) for the year ended December 31, 2008, except that the Chairman of the Board was unable to attend the Company’s annual general meeting held on May 13, 2008 (which was required under code provision E.1.2) as he was out of town on another engagement that was important to the Company’s business.

## MODEL CODE SET OUT IN APPENDIX 10 TO THE LISTING RULES

The Company has adopted its own code of conduct regarding securities transactions by directors and senior management, namely the PCPD Code of Conduct for Securities Transactions by Directors and Senior Management (“PCPD Code”), on terms no less exacting than those of the Model Code for Securities Transactions by Directors of Listing Issuers set out in Appendix 10 to the Listing Rules.

The Company has made specific enquiry of all directors of the Company, who have confirmed that they have complied with the required standard set out in the PCPD Code for the year ended December 31, 2008.

## BOARD OF DIRECTORS

As at the date of this report, the Board has 10 members, comprising 6 executive directors and 4 independent non-executive directors. Mr Valiant Cheung, one of the independent non-executive directors, is a qualified accountant with substantial experience in accounting and financial matters. Biographies of all the directors up to the date of this report are set out in pages 14 to 19 of this annual report.

The Board is responsible for the management of the Company. Key responsibilities of the Board include the formulation of the Group’s overall strategies, the setting of management targets and the supervision of management performance. The Board confines itself to making broad policy decisions and exercising a number of reserved powers set out below:

1. those functions and matters as set out in the terms of reference of various committees for which Board approval must be sought from time to time;
2. those functions and matters for which Board approval must be sought in accordance with the Group’s internal policy;
3. consideration and approval of financial statements in interim reports and annual reports and announcements and press releases of interim and final results;

4. consideration of dividend policy and dividend amount; and
5. monitoring of the corporate governance of the Group in order to comply with the applicable rules and regulations.

Responsibility for more detailed considerations has been delegated to the Executive Committee under the leadership of the Chairman.

The posts of Chairman and Chief Executive Officer are held by Li Tzar Kai, Richard and Lee Chi Hong, Robert respectively. The role of the Chairman is separate from that of the Chief Executive Officer. The Chairman is responsible for ensuring the effective functioning of the Board, for providing leadership for the Board in setting the corporate goals and objectives of the Company and for ensuring that good corporate governance practices and procedures are established and enforced. The Chief Executive Officer is responsible for the day-to-day management of the Group's business and operations and for ensuring the effective implementation of the Group's strategy.

All directors have full and timely access to all relevant information, including reports from each of the Board committees and briefings on significant legal, regulatory or accounting issues affecting the Group. Directors may take independent professional advice, which will be paid for by the Company.

The directors acknowledge their responsibility for preparing the financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the profits and cash flows of the Group and which are prepared in accordance with the Companies Ordinance of Hong Kong. In preparing the financial statements for the year ended December 31, 2008, the directors have selected suitable accounting policies and applied them consistently, made judgements and estimates that were prudent and reasonable, stated the reasons for any significant departure from applicable accounting standards in Hong Kong and prepared the financial statements on a going concern basis. The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position, results of operations, cash flows and changes in equity of the Group. The statement of the auditor of the Company about their reporting responsibilities on the financial statements of the Company is set out in the Independent Auditor's Report in page 50.

More than one third of the members of Board are independent non-executive directors which exceeds the minimum number required under the Listing Rules. The Company has received from each of its independent non-executive directors written confirmation to confirm his independence to the Company and the Company considers that those directors are independent in accordance with Rule 3.13 of the Listing Rules.

Each of the non-executive directors of the Company is appointed for a term of two years from the date of his appointment or re-election. However, all the directors of the Company are subject to retirement by rotation and re-election at its annual general meeting once every three years in accordance with the Code.

# CORPORATE GOVERNANCE REPORT

## EXECUTIVE COMMITTEE

The Executive Committee of the Board operates as a general management committee with overall delegated authority from the Board. This ensures that decisions can be taken quickly to enable the Group to seize opportunities in the fast-moving business environment. The Executive Committee determines group strategy, reviews trading performance, ensures adequate funding, examines major investments and monitors management performance. The Executive Committee's authority and duties are set out in written terms of reference and it reports through the Chairman to the Board.

Current members of the Executive Committee are:

1. Li Tzar Kai, Richard (*Chairman*)
2. Alexander Anthony Arena
3. Lee Chi Hong, Robert
4. Wayne Michael Verge

## REMUNERATION COMMITTEE

The Remuneration Committee is responsible for ensuring that there are formal and transparent procedures for developing and overseeing the Company's policies on the remuneration of its executive directors and senior management. In addition, the Remuneration Committee supervises the administration of the Company's share option scheme. The Remuneration Committee's authority and duties are set out in written terms of reference which specify, amongst other things, that it must comprise at least three members, the majority of whom are independent non-executive directors. The terms of reference are posted on the Company's website.

Current members of the Remuneration Committee are:

1. Cheung Kin Piu, Valiant (*Chairman*)
2. Li Tzar Kai, Richard
3. Prof Wong Yue Chim, Richard

During the year ended December 31, 2008, the Remuneration Committee has met on two occasions. The attendance of individual directors at committee meetings is set out in the table in page 26.

The following is a summary of the work performed by the Remuneration Committee during 2008:

- A. reviewed the remuneration of the executive directors and the non-executive directors of the Company and made recommendation to the Board that the same be approved;
- B. reviewed a proposed completion bonus for three executive directors and the incentive bonus for an executive director; and
- C. reviewed the existing terms of reference of the Remuneration Committee and considered that no revision was required.

Details of the remuneration of each director are set out in the financial statements in pages 81 to 83.



## NOMINATION COMMITTEE

The Nomination Committee is responsible for ensuring that there are fair and transparent procedures for the appointment of directors to the Board. The Nomination Committee's authority and duties are set out in written terms of reference which specify, amongst other things, that it must comprise at least three members, the majority of whom are independent non-executive directors. The terms of reference are posted on the Company's website.

Current members of the Nomination Committee are:

1. Dr Allan Zeman (*Chairman*)
2. Cheung Kin Piu, Valiant
3. Li Tzar Kai, Richard
4. Prof Wong Yue Chim, Richard

During the year ended December 31, 2008, the Nomination Committee has met on one occasion. The attendance of individual directors at the committee meeting is set out in the table in page 26.

The following is a summary of the work performed by the Nomination Committee during 2008:

- A. advised the Board on the directors who were due to retire pursuant to law, the Company's bye-laws and the Code and recommended their re-election to the Board; and
- B. reviewed the existing terms of reference of the Nomination Committee and considered that no revision was required.

## AUDIT COMMITTEE

The Audit Committee of the Board is responsible for ensuring the objectivity and credibility of the Group's financial reporting and for ensuring that the directors have exercised due care, diligence and skills prescribed by law when presenting results to the shareholders. The Audit Committee's authority and duties are set out in written terms of reference which are posted on the Company's website.

The Audit Committee's responsibilities include the appointment, compensation and supervision of the external auditor. To ensure auditor's independence, procedures have been adopted for the Audit Committee to review the fees for audit and non-audit services provided to the Group by the external auditor.

The Audit Committee reviews the Group's financial statements and internal financial reports, as well as compliance processes and internal control systems, including the internal audit unit.

## CORPORATE GOVERNANCE REPORT

All members of the Audit Committee are independent non-executive directors. Current members of the Audit Committee are:

1. Prof Wong Yue Chim, Richard (*Chairman*)
2. Cheung Kin Piu, Valiant
3. Tsang Link Carl, Brian

The Audit Committee is provided with sufficient resources to discharge its duties and meets regularly with management, internal auditor and external auditor and reviews their reports. During the year ended December 31, 2008, the Audit Committee has met on two occasions. The attendance of individual directors at the committee meetings is set out in the table in page 26.

The following is a summary of the work performed by the Audit Committee during 2008:

- A. reviewed the financial statements of the Company for the year ended December 31, 2007 and the related annual results announcement and auditor's report; and made recommendation to the Board that the same be approved;
- B. reviewed the report of the external auditor and made recommendation to the Board for their re-appointment at the 2008 annual general meeting;
- C. reviewed the financial statements of the Company for the six months ended June 30, 2008 and the related interim results announcement and made recommendation to the Board that the same be approved;
- D. reviewed external auditor's reports to the Audit Committee and their terms of engagement, communications plan and audit plan for the Group for the financial year ended December 31, 2008;
- E. reviewed various internal audit reports;
- F. reviewed the existing terms of reference of the Audit Committee and considered that no revision was required;
- G. reviewed the fees for audit and non-audit services provided by external auditor; and
- H. reviewed the Group's continuing connected transactions and external auditor's report thereon.

In addition, the Audit Committee has also reviewed the financial statements for the year ended December 31, 2008 and the related annual results announcement and auditor's report, and recommended that the Board approve the same.

## EXTERNAL AUDITOR

The Group's external auditor is PricewaterhouseCoopers. During the year ended December 31, 2008, the total fees in respect of audit and non-audit services provided by PricewaterhouseCoopers (which for this purpose includes any entity that is under the common control, ownership or management of the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as being part of the firm nationally or internationally) amounted to HK\$5.5 million.

The significant non-audit services covered by these fees include the following:

Nature of service	Fees paid (HK\$ million)
Tax advisory services	—
Non-statutory review services	1.8
Others	0.5
	<hr/>
Total non-audit services fees	2.3
	<hr/> <hr/>

## INTERNAL AUDIT

The Group's internal audit unit provides independent assurance to the Board and management on the adequacy and effectiveness of the internal controls for the Group. The internal audit unit reports directly to the Audit Committee, the Chief Executive Officer and the Chief Financial Officer.

The internal audit unit adopts a risk and control-based audit approach. An annual work plan is formulated in advance and covers major activities and processes of the Group's business and service units. All audit reports are communicated to the Audit Committee and audit issues are tracked and followed up for proper implementation, with progress reported to the Audit Committee.

The Group has adopted a Corporate Responsibility Policy that applies to all employees, including directors and officers. This sets out standards in the way the Group conducts its business and the responsibilities of the Group's employees. The policy includes guidance on obligations to the Company, civic responsibilities, equal opportunities, safeguarding of company information and property, personal data privacy, prevention of bribery, conflicts of interest, competition, health and safety at work and the environment. The full version of the Corporate Responsibility Policy is posted on the Company's website.

## CORPORATE GOVERNANCE REPORT

### ATTENDANCE AT MEETINGS

All directors actively participate in the Company's business. The attendance record of Board meetings and Board Committees meetings held during the year ended December 31, 2008 is set out below:

#### Meetings attended/held in 2008

Directors	Board	Audit Committee	Nomination Committee	Remuneration Committee	AGM
<b>Executive directors</b>					
Li Tzar Kai, Richard	4/5	—	0/1	2/2	0/1
Alexander Anthony Arena	4/5	—	—	—	0/1
Lee Chi Hong, Robert	5/5	—	—	—	1/1
Lam Yu Yee	5/5	—	—	—	1/1
James Chan	5/5	—	—	—	1/1
Gan Kim See, Wendy	5/5	—	—	—	1/1
<b>Independent non-executive directors</b>					
Cheung Kin Piu, Valiant	5/5	2/2	1/1	2/2	1/1
Tsang Link Carl, Brian	5/5	2/2	—	—	1/1
Prof Wong Yue Chim, Richard	5/5	2/2	1/1	2/2	1/1
Dr Allan Zeman	5/5	—	1/1	—	0/1

## INVESTOR RELATIONS

The Company encourages two-way communication with both institutional and private investors. Extensive information on the Company's activities is provided in the annual and interim reports, which are sent to shareholders. Regular dialogue takes place with institutional investors. Enquiries from individuals on matters relating to their shareholdings and the business of the Company are welcomed and will be dealt with in an informative and timely manner. Relevant contact information is provided in page 128 of this annual report.

In order to promote effective communication, financial and other information relating to the Group and its business activities is disclosed on the Company's website.

## STAFF TRAINING AND DEVELOPMENT

In 2008, the Group continued to enhance and improve the standard of its employees. The Group has provided training courses to its employees or has sponsored its employees to attend courses organised by third parties, with the total training hours amounting to over 6,400 hours. The training courses aimed at assisting employees to better comply with the Group's policies and standards and to improve their career prospects within the Group. Such courses included customer service enhancement courses, supervisory and people management courses, legal knowledge lectures provided by external consultants, anti-corruption seminars jointly organised with the Independent Commission Against Corruption, language proficiency courses, technical refresher courses and training, occupational health and safety training and training for the enhancement of mass awareness on compliance and regulatory issues.

## COMMUNITY

The Group has participated in, and sponsored, various charitable or community projects last year. The Group has been a sponsor of the CyberRun for Rehab since its inception in 2004 which raises funds for the Hong Kong Society for Rehabilitation. The Group has also sponsored the Cyberport Venture Capital Forum 2008, the theme of which was how to build a business that is profitable, creative, sustainable and socially responsible at the same time. The Group was again named by the Hong Kong Council of Social Service in their "Caring Company" award scheme in 2008.

# CORPORATE GOVERNANCE REPORT

## ENVIRONMENT

The Group is committed to the protection of the environment and seeks to promote environmentally friendly measures in its operations. This includes the adoption of energy-efficient building designs, the requirement for the Group's property development contractors to use environmentally friendly and reusable materials to reduce construction waste and the implementation of an environmental management plan during site operation.

In 2008, certain subsidiaries of the Group continued satisfactory operation of the Bureau Veritas Certification for the ISO 9001:2000 standard in respect of development of information technology and telecommunications information infrastructure, property development, project management and construction management, facilitation of construction and site support functions.

On behalf of the Board

**CHENG Wan Seung, Ella**

*Company Secretary*

Hong Kong, April 21, 2009

# FINANCIAL INFORMATION

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# REPORT OF THE DIRECTORS

The directors of Pacific Century Premium Developments Limited (the “Company”) present their annual report together with the audited consolidated financial statements of the Company and its subsidiaries (the “Group”) for the year ended December 31, 2008.

## PRINCIPAL ACTIVITIES

The Group is principally engaged in the development and management of premium property and infrastructure projects, as well as investment in premium-grade buildings, in the Asia-Pacific region.

Details of segment information are set out in note 5 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2008 are set out in the accompanying consolidated income statement in page 52.

The board of directors of the Company (the “Board”) did not declare an interim dividend for the six months ended June 30, 2008 (2007: 1.5 Hong Kong cents per ordinary share).

The Board did not recommend the payment of a final dividend for the year ended December 31, 2008 (2007: Nil).

## FINANCIAL SUMMARY

A summary of the consolidated results and the assets and liabilities of the Group for the last five financial years is set out in page 126.

## SUBSIDIARIES

Particulars of the Company’s principal subsidiaries are set out in note 19 to the consolidated financial statements.

## FIXED ASSETS

Details of movements in investment properties, property, plant and equipment, properties under development/held for sale/held for development of the Group and the Company during the year are set out in notes 14 to 16 to the consolidated financial statements.



## BORROWINGS

Particulars of the borrowings of the Group and the Company are set out in note 21 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 23 to the consolidated financial statements.

## RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity in page 53 and note 26 to the consolidated financial statements respectively.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2008, the aggregate sales attributable to the Group's five largest customers represented approximately 52.9 per cent of the Group's total sales, while the sales to the Group's largest customer accounted for approximately 39.2 per cent of the Group's total sales. The aggregate purchases attributable to the Group's five largest suppliers represented approximately 82.5 per cent of the Group's total purchases, while the purchases from the Group's largest supplier accounted for approximately 70.4 per cent of the Group's total purchases.

For the year ended December 31, 2008, none of the directors of the Company, their associates nor any shareholders of the Company (which have, to the knowledge of the directors of the Company, owned more than 5 per cent of the Company's issued share capital) had any interest in the Group's major customers or suppliers, except that (1) PCCW Services Limited, one of the Group's five largest customers for the year, is a wholly-owned subsidiary of PCCW Limited ("PCCW"), the ultimate holding company of the Company; and Li Tzar Kai, Richard, Alexander Anthony Arena, Lee Chi Hong, Robert are executive directors of PCCW and the interests in PCCW of Li Tzar Kai, Richard, Alexander Anthony Arena, Lee Chi Hong, Robert, James Chan and Gan Kim See, Wendy are disclosed under the section "**Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures**" in this report; and (2) 北京西單太平洋百貨有限公司 (Beijing Xidan Pacific Department Store Co., Ltd.\*) ("PDS"), another one of the Group's five largest customers for the year, is a company in which the Company indirectly holds 10 per cent of equity interests.

## REPORT OF THE DIRECTORS

### DIRECTORS

The directors of the Company who held office during the year and up to the date of this report were:

#### Executive Directors

Li Tzar Kai, Richard (*Chairman*)

Alexander Anthony Arena (*Deputy Chairman*)

Lee Chi Hong, Robert (*Chief Executive Officer*)

Lam Yu Yee

James Chan

Gan Kim See, Wendy

#### Independent Non-Executive Directors

Cheung Kin Piu, Valiant

Tsang Link Carl, Brian

Prof Wong Yue Chim, Richard, SBS, JP

Dr Allan Zeman, GBS, JP

In accordance with bye-law 87 of the Company's bye-laws, Li Tzar Kai, Richard, James Chan and Gan Kim See, Wendy shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In addition, each of the non-executive directors is appointed for a term of 2 years. As Cheung Kin Piu, Valiant and Tsang Link Carl, Brian were re-elected as directors at the annual general meeting in 2007, they will retire at the forthcoming annual general meeting. However, Mr Tsang will not offer himself for re-election and will retire at the forthcoming annual general meeting while Mr Cheung, being eligible, will offer himself for re-election.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive directors a written confirmation of his independence for the year confirming his independence to the Company and the Company considers that they are independent in accordance with the terms of the independence guidelines set out in Rule 3.13 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

## DIRECTORS’ SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## DIRECTORS’ AND CHIEF EXECUTIVE’S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at December 31, 2008, the directors and the chief executive of the Company and their associates had the following interests and short positions in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were recorded in the register required to be kept under Section 352 of the SFO; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) of the Listing Rules:

1. The Company

As at December 31, 2008, the Company had not been notified of any interests or short positions in the shares or underlying shares or debentures of the Company held by the directors or the chief executive of the Company or their associates.

## REPORT OF THE DIRECTORS

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES – CONTINUED

#### 2. Associated Corporation of the Company

##### A. Interests in PCCW

The table below sets out the aggregate long positions of the directors and the chief executive of the Company in the shares and underlying shares of PCCW, which indirectly holds approximately 61.53 per cent of the issued share capital of the Company as at December 31, 2008.

Name of director/ chief executive	Number of ordinary shares				Number of underlying shares held under equity derivatives	Total	Approximate percentage of issued share capital
	Personal interests	Family interests	Corporate interests	Other interests			
Li Tzar Kai, Richard	—	—	250,109,824 (Note I(a))	1,674,560,335 (Note I(b))	—	1,924,670,159	28.42%
Alexander Anthony Arena	760,000	—	—	—	15,800,200 (Note II)	16,560,200	0.24%
Lee Chi Hong, Robert	992,600 (Note IV(a))	511 (Note IV(b))	—	—	6,000,000 (Note III)	6,993,111	0.10%
James Chan	—	—	—	—	210,000 (Note III)	210,000	0.003%
Gan Kim See, Wendy	—	—	—	—	420,000 (Note III)	420,000	0.006%

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES – CONTINUED

### 2. Associated Corporation of the Company – Continued

#### A. Interests in PCCW – Continued

*Notes:*

- I. (a) Of these shares of PCCW, Pacific Century Diversified Limited (“PCD”), a wholly-owned subsidiary of Chiltonlink Limited, held 216,362,824 shares and Eisner Investments Limited held 33,747,000 shares. Li Tzar Kai, Richard owned 100% of Chiltonlink Limited and Eisner Investments Limited.
- (b) These interests represented:
  - (i) a deemed interest in 36,726,857 shares of PCCW held by Yue Shun Limited, a subsidiary of Hutchison Whampoa Limited (“HWL”). Cheung Kong (Holdings) Limited (“Cheung Kong”) through certain subsidiaries held more than one-third of the issued share capital of HWL. Li Tzar Kai, Richard was a discretionary beneficiary of certain discretionary trusts which held units in unit trusts which in turn held interests in certain shares of Cheung Kong and HWL. Li Tzar Kai, Richard was also interested in one-third of the issued share capital of two companies, which owned all the shares in the trustee companies which acted as trustees of such discretionary trusts and unit trusts. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 36,726,857 shares of PCCW held by Yue Shun Limited;
  - (ii) a deemed interest in 102,122,177 shares of PCCW held by Pacific Century Group Holdings Limited (“PCGH”). Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 102,122,177 shares of PCCW held by PCGH; and
  - (iii) a deemed interest in 1,535,711,301 shares of PCCW held by Pacific Century Regional Developments Limited (“PCRD”), a company in which PCGH had, through wholly-owned subsidiaries Anglang Investments Limited, Pacific Century Group (Cayman Islands) Limited, Pacific Century International Limited and Borsington Limited, an aggregate of 75.74% interest. Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Li Tzar Kai, Richard was also deemed to be interested in 0.91% of PCRD through Hopestar Holdings Limited, a company wholly-owned by Li Tzar Kai, Richard. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 1,535,711,301 shares of PCCW held by PCRD.
- II. These interests represented Alexander Anthony Arena’s beneficial interest in: (a) 200 underlying shares held in the form of 20 American Depositary Receipts which constituted listed equity derivatives; and (b) 15,800,000 underlying shares in respect of share options granted by PCCW to Alexander Anthony Arena as beneficial owner, details of which are set out in Note III below.

## REPORT OF THE DIRECTORS

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES – CONTINUED

#### 2. Associated Corporation of the Company – Continued

##### A. Interests in PCCW – Continued

*Notes: – Continued*

III. These interests represented the interests in underlying shares in respect of share options granted by PCCW to the directors and the chief executive of the Company as beneficial owners as at December 31, 2008, details of which are set out as follows (all dates are shown month/day/year):

Name of director/ chief executive	Date of grant	Vesting period	Exercisable period	Exercise price HK\$	Number of options	
					Outstanding as at 01.01.2008	Outstanding as at 12.31.2008
Alexander Anthony Arena	08.28.1999	08.17.2000 to 08.17.2004	08.17.2000 to 08.17.2009	11.780	3,200,000	3,200,000
	08.26.2000	08.26.2001 to 08.26.2005	08.26.2001 to 08.26.2010	60.120	1,600,000	1,600,000
	02.20.2001	08.26.2001 to 08.26.2005	08.26.2001 to 01.22.2011	16.840	1,600,000	1,600,000
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.350	6,400,000	6,400,000
	02.08.2005	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.475	3,000,000	3,000,000
Lee Chi Hong, Robert	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.350	5,000,000	5,000,000
	02.08.2005	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.475	1,000,000	1,000,000
James Chan	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.350	210,000	210,000
Gan Kim See, Wendy	01.22.2001	01.22.2002 to 01.22.2004	01.22.2002 to 01.22.2011	16.840	180,000	180,000
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.350	240,000	240,000

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES – CONTINUED

### 2. Associated Corporation of the Company – Continued

#### A. Interests in PCCW – Continued

*Notes: – Continued*

IV. (a) These shares were held jointly by Lee Chi Hong, Robert and his spouse.

(b) These shares were held by the spouse of Lee Chi Hong, Robert.

#### B. Short Positions in the Shares and Underlying Shares of PCCW

As at December 31, 2008, the Company had not been notified of any short positions in the shares or underlying shares or debentures of PCCW held by the directors or the chief executive of the Company or their associates.

## REPORT OF THE DIRECTORS

### SHARE OPTIONS AND DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Particulars of the Company's share option schemes are set out in note 25 to the consolidated financial statements. Details of the options which have been granted and outstanding under the 2003 share option scheme during the year ended December 31, 2008 are as follows:

1. Outstanding options as at January 1, 2008 and as at December 31, 2008

Category of participant	Date of grant	Vesting period	Exercisable period	Exercise price HK\$	Number of options	
					Outstanding as at 01.01.2008	Outstanding as at 12.31.2008
Directors of the Company's subsidiary	12.20.2004	Fully vested on 12.20.2004	12.20.2004 to 12.19.2014	2.375	5,000,000	5,000,000

*Note: All dates are shown month/day/year*

2. Options granted during the year ended December 31, 2008

During the year under review, no share options were granted.

3. Options exercised during the year ended December 31, 2008

During the year under review, no share options were exercised.

4. Options cancelled or lapsed during the year ended December 31, 2008

During the year under review, no share options were cancelled or lapsed.

At no time during the year under review was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.



## INTERESTS AND SHORT POSITIONS IN SHARES OF SUBSTANTIAL SHAREHOLDERS

### 1. Interests in the Company

As at December 31, 2008, the following persons (other than directors or the chief executive of the Company) had interests in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of shareholder	Capacity	Number of shares/ underlying shares held	Percentage of issued share capital
PCCW	Beneficial owner	2,153,555,555 (Note I)	89.45%
Elliott Capital Advisors, L.P.	Interest of controlled corporations	457,702,400 (Note II)	19.01%
Peter Cundill & Associates (Bermuda) Ltd.	Investment manager	124,952,000	5.19%
Daniel Saul Och	Interest of controlled corporations	121,447,152 (Note III)	5.04%
Och-Ziff Capital Management Group LLC	Interest of controlled corporations	121,447,152 (Note III)	5.04%
OZ Management, L.P. (formerly known as OZ Management, L.L.C.)	Investment manager	121,447,152 (Note III)	5.04%

#### Notes:

- I. These interests represented (a) an interest in 1,481,333,333 shares in the Company ("Shares") held by Asian Motion Limited, a wholly-owned subsidiary of PCCW; and (b) an interest in respect of 672,222,222 underlying Shares held by PCCW-HKT Partners Limited, a wholly-owned subsidiary of PCCW, arising as a result of the holding of the HK\$2,420 million guaranteed convertible note issued by PCPD Wealth Limited, a wholly-owned subsidiary of the Company, on December 29, 2006.
- II. Elliott Capital Advisors, L.P. has direct or indirect control over The Liverpool Limited Partnership and Elliott International, L.P. and is therefore deemed to control the exercise of the voting power of the 183,080,960 Shares held by The Liverpool Limited Partnership and the 274,621,440 Shares held by Elliott International, L.P.
- III. Daniel Saul Och has control over Och-Ziff Capital Management Group LLC which has control over an investment manager OZ Management, L.P. and the former two are therefore deemed to control the voting power of the 121,447,152 Shares held in aggregate by OZ Management, L.P. and its wholly-owned subsidiaries and other entities controlled by it.

## REPORT OF THE DIRECTORS

### INTERESTS AND SHORT POSITIONS IN SHARES OF SUBSTANTIAL SHAREHOLDERS – CONTINUED

#### 2. Short Positions in the Shares and Underlying Shares of the Company

As at December 31, 2008, the Company had not been notified of any other person who had short positions in the shares or underlying shares of the Company to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Save as disclosed above, as at December 31, 2008, the Company had not been notified of any other person who had interests or short positions in the shares and underlying shares of the Company to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

### DIRECTORS' INTERESTS IN CONTRACT OF SIGNIFICANCE

No contract of significance (as defined in Appendix 16 to the Listing Rules) to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at any time during the year.

### DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at December 31, 2008, directors of the Company had the following interests in businesses which competed or were likely to compete, either directly or indirectly, with the Group's business:

Name of Director	Names of investee companies	Nature of business	Nature of interests
Li Tzar Kai, Richard	Cheung Kong and its subsidiaries ("Cheung Kong Group")	Property development and investment, hotel and serviced suite operation, property and project management and investment in securities	Deemed interests in Cheung Kong ( <i>Note I</i> )
	HWL and its subsidiaries ("Hutchison Group")	Ports and related services, property and hotels, retail and manufacturing, energy, infrastructure, finance and investments, and telecommunications	Certain personal and deemed interests in HWL ( <i>Note II</i> )

## DIRECTORS' INTERESTS IN COMPETING BUSINESS – CONTINUED

### Notes:

- I. Certain businesses of the Cheung Kong Group may compete with certain aspects of the business of the Group. Li Tzar Kai, Richard is one of the discretionary beneficiaries of certain discretionary trusts which hold units in unit trusts which in turn are interested in certain shares of Cheung Kong. Li Tzar Kai, Richard holds one-third of the issued share capital of two companies, which own all the shares in the trustee companies which act as trustees of such discretionary trusts and unit trusts. These trustee companies perform their functions as trustees independently without any reference to Li Tzar Kai, Richard. In view of the above, the Company considers that Li Tzar Kai, Richard is not able to exert control or influence over the Cheung Kong Group.
- II. Li Tzar Kai, Richard was a director of HWL and certain of its subsidiaries until August 16, 2000, the day before the acquisition of Cable & Wireless HKT Limited (now known as PCCW-HKT Limited) became effective. Certain businesses of the Hutchison Group compete with certain aspects of the business of the Group. Li Tzar Kai, Richard has a personal interest in 110,000 shares in HWL, and is one of the discretionary beneficiaries of certain discretionary trusts which hold units in unit trusts which in turn are interested in certain shares of HWL. Li Tzar Kai, Richard holds one-third of the issued share capital of two companies, which own all the shares in the trustee companies which act as trustees of such discretionary trusts and unit trusts. These trustee companies perform their functions as trustees independently without any reference to Li Tzar Kai, Richard. In view of the above, the Company considers that Li Tzar Kai, Richard is not able to exert control or influence over the Hutchison Group.

In addition, Li Tzar Kai, Richard and Lee Chi Hong, Robert are directors of certain private companies (the “Private Companies”), which are engaged in property development and investment in Hong Kong and Japan.

Further, Li Tzar Kai, Richard and Alexander Anthony Arena are directors of PCRDC. PCRDC acts as an investment holding company of, among others, interests in PCCW and property and infrastructure and investment in the Asia-Pacific region, including Vietnam.

The business interests of the Private Companies in Hong Kong are not significant when compared with the business of the Group and it is unlikely that such business interests will compete with the business of the Group. The business interests in Japan, the Asia-Pacific region, including Vietnam are also unlikely to compete with the existing business of the Group.

Li Tzar Kai, Richard has a controlling interest in some of the Private Companies. Further, he is or may be regarded as interested in PCRDC and PCGH due to the interests as disclosed under the section headed “**Directors’ and Chief Executive’s Interests and Short Positions in Shares, Underlying Shares and Debentures**” in this report.

As PCRDC and the Private Companies are involved in the development and/or investment of properties of different types and/or in different locations, the Group has been operating independently of, and at arm’s length from, the businesses of those companies.

Save as disclosed above, none of the directors or their respective associates has an interest in a business, apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

## REPORT OF THE DIRECTORS

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, there was no purchase, sale or redemption by the Company or any of its subsidiaries of the listed securities of the Company.

### MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

### RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes are set out in note 24 to the consolidated financial statements.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, although no restrictions against such rights exist under the laws of Bermuda.

## CONNECTED TRANSACTIONS

Since the publication of the Company's annual report for the year ended December 31, 2007, the Group had entered into (or continued to be party to) certain transactions which are "connected transactions" or "continuing connected transactions" as defined in the Listing Rules and which are subject to the disclosure requirements under Chapter 14A of the Listing Rules. The Company has complied with such disclosure requirements. Details of such transactions with PCCW group during the year are as follows:

### 1. Connected transactions

- I. On February 18, 2008, Ipswich Holdings Limited ("Ipswich"), a wholly-owned subsidiary of the Company, entered into two sale and purchase agreements with PCCW-HKT Telephone Limited, a wholly-owned subsidiary of PCCW, for disposal of the entire issued share capital of ACCA Investment Limited ("ACCA") and Carmay Investment Limited ("Carmay") respectively, both wholly-owned subsidiaries of Ipswich, at a total cash consideration of HK\$51,000,000. The sole assets of ACCA and Carmay are the properties situated at the 18th and 20th floors (each including lavatories, lift lobby and corridor), roof and car parking spaces nos. 5-8 and lorry parking spaces L3-L5 on the 1st floor of Paramount Building, No. 12 Ka Yip Street, Chai Wan, Hong Kong (Chai Wan Inland Lot No. 134). The transaction constituted a connected transaction of the Company. Details of the transaction were set out in the Company's announcement dated February 18, 2008.
- II. On July 31, 2008, Excel Bright Properties Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with PCCW Properties Limited ("PPL"), a wholly-owned subsidiary of PCCW, for acquisition of the entire issued share capital of Effectual Enterprises Limited ("Effectual"), a wholly-owned subsidiary of PPL, at a consideration of HK\$3,900,000. The sole asset of Effectual is a 10 per cent equity interest in PDS, a foreign equity joint venture incorporated in the People's Republic of China with a term of 30 years from October 2001 to October 2031. PDS is one of the major tenants of Pacific Century Place ("PCP"), the Group's investment property in Beijing. The transaction constituted a connected transaction of the Company. Details of the transaction were set out in the Company's announcement dated July 31, 2008.

## REPORT OF THE DIRECTORS

### CONNECTED TRANSACTIONS – CONTINUED

#### 2. Continuing connected transactions

- I. As disclosed in the Company's announcement dated March 29, 2007, that day PCPD Facilities Management Limited ("PCPD FM") and Reach Networks (Hong Kong) Limited ("Reach Networks"), a wholly-owned subsidiary of Reach Limited, a 50:50 joint venture between Telstra Corporation Limited and PCCW, entered into two agreements for the provision of the facilities management services and lease and tenant management services to Reach Networks at a fee calculated in accordance with the agreements, subject to an annual cap of HK\$25 million and HK\$2.7 million for facilities management services and lease and tenant management services respectively, for a term of three years from April 1, 2007 to March 31, 2010, subject to the right of Reach Networks to terminate early at the end of the second year by giving 3 months' prior notice in writing to PCPD FM. The aggregate service fee charged by PCPD FM for the period from January 1, 2008 to December 31, 2008 was approximately HK\$23.3 million.
- II. As disclosed in the Company's announcement dated December 6, 2007, that day PCPD FM and PCCW Services Limited ("PCCW Services") entered into a renewal agreement to replace the agreement (which expired on December 5, 2007) for the provision of facilities management, project management, corporate and asset management services to PCCW Services at a fee calculated in accordance with the agreement, subject to an annual cap of HK\$65 million, for a term of three years from December 6, 2007 to December 5, 2010. The service fee charged by PCPD FM for the period from January 1, 2008 to December 31, 2008 was approximately HK\$55.5 million.
- III. As disclosed in the Company's announcement dated June 30, 2005, that day the Company and PCCW Services entered into a master goods and services agreement (the "2005 Master Agreement") for the supply by the PCCW group to the Group of certain goods and services, which included telephony equipment and services ("Telephony"), computer systems and information technology and related services ("Information Technology") and non-administrative corporate services ("Other Services"), for a term of three years from June 1, 2005 to May 31, 2008 (both dates inclusive). For the transactions within the period from January 1, 2008 to May 31, 2008, the costs involved are subject to the full-year caps as set out in paragraph IV below.

## CONNECTED TRANSACTIONS – CONTINUED

### 2. Continuing connected transactions – Continued

- IV. As disclosed in the Company's announcement dated May 30, 2008, that day the Company and PCCW Services entered into a master goods and services agreement (the "2008 Master Agreement") which sets out the framework for the provision of certain goods and services by the PCCW group to the Group. The categories of goods and services which provided pursuant to the 2008 Master Agreement for the period from June 1, 2008 to December 31, 2010 (both dates inclusive) were (i) Telephony, (ii) Information Technology and (iii) Other Services.

Taking into account the transactions under the 2005 Master Agreement for the period from January 1, 2008 to May 31, 2008, the aggregate contract amount for each category of transactions contemplated under the 2008 Master Agreement during the year were set as follows:

<b>Category of Services</b>	<b>Approximate aggregate contract amount for the financial year ended December 31, 2008</b>	<b>Annual Cap for the financial year ended December 31, 2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Telephony	1,034	1,100
Information Technology	4,617	14,400
Other Services	207	5,143

## REPORT OF THE DIRECTORS

### CONNECTED TRANSACTIONS – CONTINUED

#### 2. Continuing connected transactions – Continued

- V. As disclosed in the Company's announcement dated September 2, 2008, that day 北京京威房地產開發有限公司 (Beijing Jing Wei House and Land Estate Development Co. Ltd.\*) ("BJJW") as lessor, a wholly-owned subsidiary of the Company, entered into a Lease Agreement (the "Lease Agreement") with 電訊盈科 (北京) 有限公司朝陽分公司 (PCCW (Beijing) Company Limited Chaoyang Branch\*) ("PBL Chaoyang Branch") as lessee, a wholly-owned subsidiary of PCCW, for renewal of the lease of Unit 17B on basement level 1 of IBM Tower of PCP Beijing for a term of one year from August 1, 2008 to July 31, 2009 at a monthly rental of RMB2,703.20. All leases of PCP Beijing between the Group and the PCCW group ("PCP Beijing Leases") were required to be aggregated for each financial year. The aggregate value of the Lease Agreement and the other PCP Beijing Leases for the financial year ended December 31, 2008 exceeded the threshold under Rule 14A.33 of the Listing Rules and therefore, the Lease Agreement and the other PCP Beijing Leases were required to be disclosed in accordance with the reporting and announcements under the Listing Rules. The salient terms of the other PCP Beijing Leases which subsisted within the financial year ended December 31, 2008 were set out below:

- |     |                    |  |
|-----|--------------------|--|
| (a) | Date of agreement: | November 12, 2007  |
|     | Parties:           | BJJW as lessor; and<br>PBL Chaoyang Branch as lessee     |
|     | Property:          | Unit 17B on basement level 1 of IBM Tower of PCP Beijing |
|     | Term:              | August 1, 2007 - July 31, 2008                           |
|     | Monthly rental:    | RMB 2,740.37   |
| (b) | Date of agreement: | March 20, 2007   |
|     | Parties:           | BJJW as lessor; and<br>PBL Chaoyang Branch as lessee     |
|     | Property:          | Unit 38 on basement level 2 of IBM Tower of PCP Beijing  |
|     | Term:              | February 1, 2007 - January 31, 2008                      |
|     | Monthly rental:    | RMB 965.09   |
| (c) | Date of agreement: | March 31, 2008   |
|     | Parties:           | BJJW as lessor; and<br>PBL Chaoyang Branch as lessee     |
|     | Property:          | Unit 38 on basement level 2 of IBM Tower of PCP Beijing  |
|     | Term:              | February 1, 2008 - January 31, 2011                      |
|     | Monthly rental:    | RMB 965.09   |



## CONNECTED TRANSACTIONS – CONTINUED

## 2. Continuing connected transactions – Continued

- |     |                    |   |
|-----|--------------------|---|
| (d) | Date of agreement: | March 24, 2008  |
|     | Parties:           | BJJW as lessor; and<br>PBL Chaoyang Branch as lessee                  |
|     | Property:          | Unit 601 and Unit 608 of IBM Tower of PCP Beijing                     |
|     | Term:              | September 1, 2007 - August 31, 2010                                   |
|     | Monthly rental:    | RMB 88,856.42   |
| (e) | Date of agreement: | December 1, 2007  |
|     | Parties:           | BJJW as lessor; and<br>PBL Chaoyang Branch as lessee                  |
|     | Property:          | Units 1301A, 1302, 1302A, 1305A and 1317A of IBM Tower of PCP Beijing |
|     | Term:              | December 1, 2007 - February 29, 2008                                  |
|     | Monthly rental:    | RMB 153,384.59  |
| (f) | Date of agreement: | March 26, 2008  |
|     | Parties:           | BJJW as lessor; and<br>PBL Chaoyang Branch as lessee                  |
|     | Property:          | Units 1301A, 1302, 1302A, 1305A and 1317A of IBM Tower of PCP Beijing |
|     | Term:              | March 1, 2008 - February 28, 2011                                     |
|     | Monthly rental:    | RMB 203,540.12  |
| (g) | Date of agreement: | February 28, 2007   |
|     | Parties:           | BJJW as lessor; and<br>PCCW Beijing representative office as lessee   |
|     | Property:          | Unit 1301B of IBM Tower of PCP Beijing                                |
|     | Term:              | March 1, 2007 - February 29, 2008                                     |
|     | Monthly rental:    | RMB 10,174.32   |
| (h) | Date of agreement: | March 26, 2008  |
|     | Parties:           | BJJW as lessor; and<br>PCCW Beijing representative office as lessee   |
|     | Property:          | Unit 1301B of IBM Tower of PCP Beijing                                |
|     | Term:              | March 1, 2008 - February 28, 2011                                     |
|     | Monthly rental:    | RMB 13,501.24   |

## REPORT OF THE DIRECTORS

### CONNECTED TRANSACTIONS – CONTINUED

#### 2. Continuing connected transactions – Continued

(i)	Date of agreement:	December 1, 2007
	Parties:	BJJW as lessor; and 電訊盈科信息技術（廣州）有限公司北京分公司 (PCCW Solutions (Guangzhou) Limited Beijing Branch*) as lessee
	Property:	Unit 1303 of IBM Tower of PCP Beijing
	Term:	December 1, 2007 - February 29, 2008
	Monthly rental:	RMB 5,960.85
(j)	Date of agreement:	April 16, 2008
	Parties:	BJJW as lessor; and 電訊盈科信息技術（廣州）有限公司北京分公司 (PCCW Solutions (Guangzhou) Limited Beijing Branch*) as lessee
	Property:	Unit 1303 of IBM Tower of PCP Beijing
	Term:	March 1, 2008 - February 28, 2011
	Monthly rental:	RMB 7,910.00

The annual cap and the aggregate amount for the above PCP Beijing Leases for the financial year ended December 31, 2008 were approximately RMB4.9 million and RMB4.4 million respectively.

The independent non-executive directors of the Company have reviewed and confirmed that the continuing connected transactions for the financial year ended December 31, 2008 have been entered into:

- A. in the ordinary and usual course of the business of the Group;
- B. either on normal commercial terms or on terms no less favourable to the Group than the terms available to or from independent third parties; and
- C. in accordance with the relevant agreements governing them on the terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

In addition, the auditors of the Company have confirmed to the Board in writing, in respect of the continuing connected transactions for the financial year ended December 31, 2008, that:

- A. all such transactions had been approved by the Board;
- B. the transactions referred to in items 2.I. and 2.II. above involved the provision of goods and services by the Group and were conducted in accordance with the relevant pricing policies of the Group;
- C. all such transactions were entered into in accordance with the terms of the relevant agreements governing them; and
- D. none of the transactions had exceeded the caps disclosed in the Company's announcements dated March 29, 2007, December 6, 2007, May 30, 2008 and September 2, 2008.

## RELATED PARTY TRANSACTIONS

Details of the material related party transactions undertaken by the Group in the normal course of business are set out in note 35 to the consolidated financial statements. Those related party transactions which constituted connected transactions/continuing connected transactions under the Listing Rules have complied with the applicable requirements of the Listing Rules.

## PUBLIC FLOAT

Based on information that is available to the Company, as at the date of this report, the percentage of shares held by the public has fallen to approximately 18.44 per cent, which is below the minimum percentage prescribed under Rule 8.08 of the Listing Rules (the “Minimum Prescribed Percentage”). The shortfall arose because Elliott Capital Advisors, L.P. has increased its shareholdings in the Company to 20.03 per cent and became a substantial shareholder and hence a connected person of the Company. The Company will take steps to restore its public holdings to the Minimum Prescribed Percentage as soon as practicable. Further announcement will be made in due course once there is concrete progress in the restoration of the public float of the Company. Details of the shareholdings of the substantial shareholders in the Company as at December 31, 2008 are disclosed under the section “**Interest and Short Positions in Shares of Substantial Shareholders**” in this report.

## CORPORATE GOVERNANCE

The Company’s corporate governance principles and practices are set out in the corporate governance report in page 20 to 28 of this annual report.

## AUDITOR

The financial statements for the financial year ended December 31, 2008 have been audited by PricewaterhouseCoopers who will retire at the conclusion of the forthcoming annual general meeting. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company will be proposed at that meeting.

On behalf of the Board

**CHENG Wan Seung, Ella**  
*Company Secretary*

Hong Kong, April 21, 2009

\* *For identification only*

# INDEPENDENT AUDITOR'S REPORT



羅兵咸永道會計師事務所

**PricewaterhouseCoopers**  
22nd Floor, Prince's Building  
Central, Hong Kong  
Telephone (852) 2289 8888  
Facsimile (852) 2810 9888

## TO THE SHAREHOLDERS OF PACIFIC CENTURY PREMIUM DEVELOPMENTS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Pacific Century Premium Developments Limited (the "Company") and its subsidiaries (the "Group") set out on pages 52 to 125, which comprise the consolidated and company balance sheets as at December 31, 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at December 31, 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, April 21, 2009

# CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2008

HK\$ million	Note(s)	2008	2007
<b>Turnover</b>	4, 5	<b>9,943</b>	3,134
Cost of sales		<b>(8,181)</b>	(2,031)
Gross profit		<b>1,762</b>	1,103
General and administrative expenses		<b>(526)</b>	(356)
Other income		<b>2</b>	21
Other losses, net	6	<b>(11)</b>	(54)
<b>Operating profit before (deficit)/surplus on revaluation of investment properties</b>		<b>1,227</b>	714
(Deficit)/Surplus on revaluation of investment properties	14	<b>(534)</b>	14
		<b>693</b>	728
Interest income		<b>88</b>	275
Finance costs	7	<b>(140)</b>	(133)
<b>Profit before taxation</b>	8	<b>641</b>	870
Income tax	11	<b>(128)</b>	(86)
<b>Profit attributable to equity holders of the Company</b>		<b>513</b>	784
<b>Dividends</b>			
Interim dividend	12	—	36
<b>Earnings per share</b> (expressed in Hong Kong cents per share)			
Basic	13	<b>21.29 cents</b>	32.59 cents
Diluted	13	<b>21.21 cents</b>	29.78 cents
<b>Dividends per share</b> (expressed in Hong Kong cents per share)	12	—	1.50 cents

The notes on pages 60 to 125 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2008

HK\$ million	2008						Total
	Issued equity	Capital reserve	Currency translation reserve	Convertible notes reserve	Employee share-based compensation reserve	Retained earnings	
Balance at January 1, 2008	4,321	(565)	512	769	17	2,570	7,624
Exchange differences	—	—	300	—	—	—	300
Net income recognised directly in equity	—	—	300	—	—	—	300
Profit for the year	—	—	—	—	—	513	513
Total recognised income for 2008	—	—	300	—	—	513	813
Balance at December 31, 2008	4,321	(565)	812	769	17	3,083	8,437

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2008

HK\$ million	2007						Total
	Issued equity	Capital reserve	Currency translation reserve	Convertible notes reserve	Employee share-based compensation reserve	Retained earnings	
Balance at January 1, 2007	4,309	(565)	199	769	17	1,954	6,683
Exchange differences	—	—	313	—	—	—	313
Net income recognised directly in equity	—	—	313	—	—	—	313
Profit for the year	—	—	—	—	—	784	784
Total recognised income for 2007	—	—	313	—	—	784	1,097
Issue of new shares for exercise of share options (note 23(c))	12	—	—	—	—	—	12
2006 final dividend paid	—	—	—	—	—	(132)	(132)
2007 interim dividend paid	—	—	—	—	—	(36)	(36)
Balance at December 31, 2007	4,321	(565)	512	769	17	2,570	7,624

The notes on pages 60 to 125 form part of these financial statements.



# CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2008

HK\$ million	Note(s)	2008	2007
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investment properties	14	3,831	4,153
Property, plant and equipment	15	173	60
Properties under development	16(a)	626	795
Properties held for development	16(b)	860	816
Goodwill	17	96	93
Other receivables		4	26
Deferred income tax assets	28(b)	23	10
		<b>5,613</b>	5,953
<b>Current assets</b>			
Properties under development/held for sale	16(a)	2,402	9,133
Sales proceeds held in stakeholders' accounts	20(a)	6,994	2,425
Restricted cash	20(b),29(b)	720	575
Trade receivables, net	20(c)	1,918	332
Prepayments, deposits and other current assets		125	63
Amounts due from fellow subsidiaries	35(c)	10	10
Amounts due from related companies	35(c)	2	3
Short-term deposits	29(b)	—	106
Cash and cash equivalents	29(b)	1,654	1,759
		<b>13,825</b>	14,406

## CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2008

HK\$ million	Note(s)	2008	2007
<b>Current liabilities</b>			
Current portion of long-term borrowings	21	24	24
Trade payables	20(d)	191	114
Accruals, other payables and deferred income	20(e)	1,600	1,272
Derivative financial instrument		—	7
Deposits received on sales of properties		469	1,944
Gross amounts due to customers for contract works	20(f)	5	7
Amounts due to fellow subsidiaries	35(c)	15	15
Amount payable to the HKSAR Government			
under the Cyberport Project Agreement	22	4,981	5,178
Current income tax liabilities		143	31
		7,428	8,592
<b>Net current assets</b>		<b>6,397</b>	<b>5,814</b>
<b>Total assets less current liabilities</b>		<b>12,010</b>	<b>11,767</b>
<b>Non-current liabilities</b>			
Long-term borrowings	21	2,105	1,989
Amount payable to the HKSAR Government			
under the Cyberport Project Agreement	22	1,195	1,741
Deferred income tax liabilities	28(a)	240	326
Other long-term liabilities		33	87
		3,573	4,143
<b>Net assets</b>		<b>8,437</b>	<b>7,624</b>

HK\$ million	Note(s)	2008	2007
<b>REPRESENTING:</b>			
Issued equity	23	<b>4,321</b>	4,321
Reserves		<b>4,116</b>	3,303
		<b>8,437</b>	7,624

Approved by the board of directors on April 21, 2009 and signed on behalf of the Board by

**Lee Chi Hong, Robert**  
*Director*

**Alexander Anthony Arena**  
*Director*

The notes on pages 60 to 125 form part of these financial statements.

# BALANCE SHEET

AS AT DECEMBER 31, 2008

HK\$ million	Note	2008	2007
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investment in subsidiaries	18	2,870	2,870
<b>Current assets</b>			
Amounts due from subsidiaries	18	3,128	2,913
<b>Current liabilities</b>			
Accruals and other payables		1	2
<b>Net current assets</b>		<b>3,127</b>	2,911
<b>Total assets less current liabilities</b>		<b>5,997</b>	5,781
<b>Net assets</b>		<b>5,997</b>	5,781
<b>REPRESENTING:</b>			
Share capital	23(b)	241	241
Reserves	26	5,756	5,540
		<b>5,997</b>	5,781

Approved by the board of directors on April 21, 2009 and signed on behalf of the Board by

**Lee Chi Hong, Robert**  
Director

**Alexander Anthony Arena**  
Director

The notes on pages 60 to 125 form part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2008

HK\$ million	Note	2008	2007
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	29(a)	<b>(155)</b>	(572)
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		<b>(97)</b>	(18)
Payment for investment properties	14	—	(4)
Proceeds from disposal of subsidiaries	33	<b>51</b>	—
Acquisition of the ski operation of a subsidiary, net of cash acquired	34	—	(23)
Acquisition of a subsidiary	35(a)(ii)	<b>(4)</b>	—
Decrease in bank deposits with maturity more than three months		<b>106</b>	67
Instalments received from the disposal of unconsolidated subsidiaries		—	10
<b>NET CASH GENERATED FROM INVESTING ACTIVITIES</b>		<b>56</b>	32
<b>FINANCING ACTIVITIES</b>			
Proceeds from shares issued under share option scheme		—	12
Dividends paid		—	(168)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>		—	(156)
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(99)</b>	(696)
Exchange differences		<b>(6)</b>	10
<b>CASH AND CASH EQUIVALENTS</b>			
Balance at January 1,		<b>1,759</b>	2,445
Balance at December 31,	29(b)	<b>1,654</b>	1,759

The notes on pages 60 to 125 form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 (Amount expressed in Hong Kong dollars unless otherwise stated)

## 1. GENERAL INFORMATION

Pacific Century Premium Developments Limited (the “Company”) and its subsidiaries (together the “Group”) are principally engaged in the development and management of property and infrastructure and investment in properties in Hong Kong and in the Asia-Pacific region.

The Company is a limited liability company incorporated in Bermuda and its securities are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

At December 31, 2008, the directors consider the parent company of the Group to be Asian Motion Limited, a company incorporated in British Virgin Islands, and the ultimate holding company of the Group to be PCCW Limited (“PCCW”), a company incorporated in Hong Kong. PCCW produces financial statements available for public use.

The financial statements set out on pages 52 to 125 were approved by the board of directors (the “Board”) on April 21, 2009.

## 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

### a. Statement of compliance

These financial statements have been prepared in accordance with applicable Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of the Hong Kong Companies Ordinance. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

### b. Basis of preparation of the financial statements

The consolidated financial statements for the year ended December 31, 2008 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss and investment properties, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

The HKICPA has issued certain new and revised HKFRS that are first effective or available for early adoption for the current accounting period of the Group. The following sets out the changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

## 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

### b. Basis of preparation of the financial statements - Continued

*Standards, amendments and interpretations effective for the annual period beginning on January 1, 2008 adopted by the Group but have no significant impact on the Group's financial statements*

Amendments to HKAS 39 and HKFRS 7	Amendment on Reclassification of Financial Assets
HK(IFRIC)-Int 11	HKFRS 2 - Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

*The following new standards, amendments and interpretations have been issued but are not yet effective for the year ended December 31, 2008 and which the Group has not early adopted:*

HKAS 1 (Revised)	Presentation of Financial Statements (effective for annual periods beginning on or after January 1, 2009)
HKAS 23 (Revised)	Borrowing Costs (effective for annual periods beginning on or after January 1, 2009)
HKAS 27 (Revised)	Consolidated and Separate Financial Statements (effective for annual periods beginning on or after July 1, 2009)
HKAS 32 (Amendment) and HKAS 1 (Amendment)	Puttable Financial Instruments and Obligations Arising on Liquidation (effective for annual periods beginning on or after January 1, 2009)
Amendments to HKFRS 1	First-time adoption of HKFRS and HKAS 27 - Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective for annual periods beginning on or after January 1, 2009)
HKFRS 2 (Amendment)	Share-based Payment Vesting Conditions and Cancellations (effective for annual periods beginning on or after January 1, 2009)
HKFRS 3 (Revised)	Business Combination (effective for annual periods beginning on or after July 1, 2009)
HKFRS 8	Operating Segments (effective for annual periods beginning on or after January 1, 2009)
HK(IFRIC)-Int 13	Customer Loyalty Programmes (effective for annual periods beginning on or after July 1, 2008)
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate (effective for annual periods beginning on or after January 1, 2009)
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after October 1, 2008)
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners (effective from annual periods beginning on or after July 1, 2009)
HK(IFRIC)-Int 18	Transfer of Assets from Customers (effective for transfer of assets from customers received on or after July 1, 2009)

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 (Amount expressed in Hong Kong dollars unless otherwise stated)

### 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

#### b. Basis of preparation of the financial statements - Continued

Improvements to HKFRS - Amendments to:

HKAS 1 (Revised)	Presentation of Financial Statement (effective for annual periods beginning on or after January 1, 2009)
HKAS 2	Inventories (effective for annual periods beginning on or after January 1, 2009)
HKAS 7	Cash Flow Statements (effective for annual periods beginning on or after January 1, 2009)
HKAS 16	Property, Plant and Equipment (effective for annual periods beginning on or after January 1, 2009)
HKAS 19	Employee Benefits (effective for annual periods beginning on or after January 1, 2009)
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance (effective for annual periods beginning on or after January 1, 2009)
HKAS 23 (Revised)	Borrowing Costs (effective for annual periods beginning on or after January 1, 2009)
HKAS 27	Consolidated and Separate Financial Statements (effective for annual periods beginning on or after January 1, 2009)
HKAS 28	Investments in Associates (effective for annual periods beginning on or after January 1, 2009)
HKAS 29	Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after January 1, 2009)
HKAS 31	Interests in Joint Ventures (effective for annual periods beginning on or after January 1, 2009)
HKAS 36	Impairment of Assets (effective for annual periods beginning on or after January 1, 2009)
HKAS 38	Intangible Assets (effective for annual periods beginning on or after January 1, 2009)
HKAS 39	Financial Instruments: Recognition and Measurement (effective for annual periods beginning on or after January 1, 2009)
HKAS 40	Investment Property (effective for annual periods beginning on or after January 1, 2009)
HKAS 41	Agriculture (effective for annual periods beginning on or after January 1, 2009)
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations (effective for annual periods beginning on or after July 1, 2009)

Other minor amendments to:

HKFRS 7	Financial Instruments: Disclosures (effective for annual periods beginning on or after January 1, 2009)
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors (effective for annual periods beginning on or after January 1, 2009)
HKAS 10	Events After the Balance Sheet Date (effective for annual periods beginning on or after January 1, 2009)
HKAS 18	Revenue (effective for annual periods beginning on or after January 1, 2009)
HKAS 34	Interim Financial Reporting (effective for annual periods beginning on or after January 1, 2009)

The Group has already commenced an assessment of the impact of these new HKFRS but is not yet in a position to state whether these new HKFRS would have a significant impact on its results of operations and financial position.



## 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

### c. Subsidiaries

Subsidiaries are all entities (including special purpose entities) that are controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of identifiable net assets acquired is recorded as goodwill (note 2(j)).

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, investment in subsidiaries are stated at cost less any impairment losses (note 2(h)). The results of subsidiaries are recognised by the Company to the extent of dividends received and receivable at the balance sheet date.

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 (Amount expressed in Hong Kong dollars unless otherwise stated)

### 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

#### d. Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and that the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Sales of properties

Revenue and profits arising from sales of completed properties are recognised upon execution of legally binding unconditional sales contracts upon which the beneficial interest in the properties passes to the purchasers together with the significant risks and rewards of ownership.

For pre-completion contracts for the sales of development properties for which legally binding unconditional sales contracts were entered, revenue and profits are recognised upon completion of the development and when significant risks and rewards of ownership have been transferred. Deposits and instalments received from purchasers prior to this stage are included in current liabilities.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Contract revenue

Revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of estimated value of work done to date against total contract revenue.

(iv) Service income

Service income is recognised when services are rendered to customers.

(v) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis using the effective interest method by reference to the principal outstanding and the rates applicable.

## 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

### e. Operating leases

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

#### (i) Assets held for use in operating leases (as lessor)

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature as set out in note 2(g). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 2(d)(ii).

#### (ii) Operating lease charges

Leases in which a significant portion of the risks and rewards of ownership retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

Up-front payments made for leasehold land held under operating leases are presented in the balance sheet as prepayments for operating leases and are amortised in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement.

When a definite intention to develop the leasehold land is clear and action initiated, the net book value of leasehold land held under operating lease for sale is reclassified as properties under development.

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 (Amount expressed in Hong Kong dollars unless otherwise stated)

### 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

#### f. Freehold land, property, plant and equipment and depreciation

Freehold land is stated at cost less impairment losses (note 2(h)) as the land has an indefinite useful life and are not subject to depreciation.

Property, plant and equipment is stated in the balance sheet at cost less accumulated depreciation and impairment losses (note 2(h)). The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use, including qualifying borrowing costs. Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset and is depreciated over the original remaining useful life of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group and the costs can be measured reliably. All other subsequent expenditure, such as repairs and maintenance and overhaul costs, is recognised as an expense in the period in which it is incurred.

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

Depreciation is calculated to write off the cost on a straight-line basis over the estimated useful lives as follows:

Buildings and structures	5 to 50 years
Other plant and equipment	2 to 12 years

The useful lives of property, plant and equipment are reviewed, and adjusted if appropriate, at each balance sheet date.

#### g. Investment properties

A property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property.

Investment properties comprise land held under operating leases and buildings held under finance leases. Land held under operating leases are classified and accounted for as an investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment properties are initially measured at their cost, including directly attributable construction costs, borrowing costs and other related transaction costs. After initial recognition, investment properties are stated in the balance sheet at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee and are prepared or reviewed annually by independent external valuers. The fair value of investment properties reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the properties. Changes in fair value arising on the revaluation of investment properties are recognised in the income statement.

Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

## 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

### h. Impairment of investment in subsidiaries and non-financial assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- interest in freehold land;
- property, plant and equipment;
- properties under development/held for sale/held for development;
- investment in subsidiaries; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash inflows (a cash-generating unit).

#### (i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and its value in use. Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

#### (ii) Reversals of impairment losses

An impairment loss of an asset other than goodwill is reversed if there has been a change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 (Amount expressed in Hong Kong dollars unless otherwise stated)

### 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

#### i. Properties held for and under development for sale

Properties held for development represent interests in land held for future development which are stated in the balance sheet at cost less impairment losses (note 2(h)).

Properties under development represent interests in land and buildings under construction. Properties under development for long-term retention purposes are stated at cost less any provision for impairment in value.

Properties under development for sale are carried at the lower of cost and the estimated net realisable value. Cost includes original land acquisition costs, costs of land use rights, construction expenditures incurred and other direct development costs attributable to such properties, including amortisation of leasehold land and interest incurred on loans directly attributable to the development prior to the completion of construction. The net realisable value is determined by reference to estimated sale proceeds of properties sold in the ordinary course of business less all estimated selling expenses.

Up-front payments for leasehold land and land use rights included in properties under development are measured at amortised cost less accumulated impairment losses.

Properties under development for sale with the development expected to be completed within one year from the balance sheet date, which have either been pre-sold or are intended for sale, are classified under current assets.

Properties held for sale represent completed properties available for sale which are stated at the lower of cost and the estimated net realisable value. They are classified under current assets.

Properties under development for long-term retention purpose, on completion, are transferred to property, plant and equipment or investment properties.

#### j. Goodwill

Goodwill represents the excess of the cost of an acquisition over the Group's share of the fair value of the acquiree's net identifiable assets and liabilities at the date of acquisition.

Goodwill is stated at cost less accumulated impairment losses (note 2(h)). Goodwill is allocated to cash-generating units for the purpose of impairment testing and is tested annually for impairment. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity or business unit include the carrying amount of goodwill relating to the entity or business unit sold.

## 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

### k. Construction contracts

The accounting policy for contract revenue is set out in note 2(d)(iii) above and construction costs are recognised when incurred. When the outcome of a construction contract can be estimated reliably, contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent that it is probable the contract costs incurred will be recoverable and contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profits less recognised losses, estimated value of work performed including progress billing, and are presented in the balance sheet as the "Gross amounts due from customers for contract work" (as an asset) or the "Gross amounts due to customers for contract work" (as a liability), as applicable. Progress billings for work performed on a contract not yet paid by customers are included in the balance sheet under "Trade receivables, net".

### l. Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. Trade and other receivables are included in the balance sheet under "Trade receivables, net" and "Prepayments, deposits and other current assets".

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of loans and receivables is established when there is objective evidence that the Group will not be able to collect amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probably that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivables are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement.

### m. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition, less bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 (Amount expressed in Hong Kong dollars unless otherwise stated)

### 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

#### n. Derivative financial instruments

The fair value of the liability portion of convertible notes is determined using a market interest rate for an equivalent non-convertible debt. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the debt. The remainder of the proceeds is allocated to the conversion option, which is recognised and included in shareholders' equity, net of income tax effects. The carrying amount of the financial liability is measured on the amortised cost basis using effective interest method minus principal repayments. The conversion option is an equity instrument that is recognised in the convertible notes reserve in equity until either the note is converted or redeemed. If the note is converted, the convertible notes reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the convertible notes reserve is transferred directly to retained earnings.

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at each balance sheet date. The gain or loss on re-measurement to fair value is recognised immediately in the income statement.

Rental guarantee contract of the Group is categorised as a financial liability at fair value through profit or loss at inception and is initially recognised at fair value on the date on which a contract is entered into and subsequently re-measured at its fair value at each balance sheet date. Changes in fair value of the rental guarantee contract are recognised in the income statement.

#### o. Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

#### p. Trade and other payables

Trade and other payables are recognised initially at fair value and thereafter stated at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.



## 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

### q. Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate of the amount required to settle the obligation. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of resources will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### r. Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Discounts or premiums relating to borrowings, ancillary costs incurred in connection with arranging borrowings and exchange differences arising from foreign currency borrowings, to the extent that they are regarded as adjustments to interest costs, are recognised as expenses over the period of the borrowing.

### s. Income tax

Income tax for the year comprises current income tax and movements in deferred income tax assets and liabilities. Income tax is recognised in the income statement.

- (i) Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (ii) Deferred income tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases respectively. Deferred income tax assets also arise from unused tax losses and unused tax credits.

All deferred income tax liabilities are recognised while deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

The amount of deferred income tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred income tax assets and liabilities are not discounted.

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 (Amount expressed in Hong Kong dollars unless otherwise stated)

### 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

#### t. Employee benefits

- (i) Salaries, annual bonuses, annual leave entitlements, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, provisions are made for the estimated liability as a result of services rendered by employees up to the balance sheet date.
- (ii) Defined contribution retirement schemes (including the Mandatory Provident Fund) are offered to employees of the Group. The schemes are operated by PCCW and the assets of such schemes are generally held in separate trustee-administered funds. The schemes are generally funded by payments from the relevant companies of the PCCW Group including the Group and, in some cases, employees themselves, taking into account of the recommendations of independent qualified actuaries.

The Group's contributions to the defined contribution retirement schemes are recognised as expenses in the income statement in the period to which the contributions relate. Under the defined contribution retirement schemes, the employer is required to make contributions to the scheme at rates specified under the rules of the scheme. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

- (iii) The Group and PCCW operate share option schemes where employees (including directors) are granted options to acquire shares of the Company or PCCW at specified exercise prices. The fair value of the employee services received in exchange for the grant of the options is recognised as staff costs in the income statement with a corresponding increase in an employee share-based compensation reserve under equity. The fair value of the options granted is measured at grant date using the trinomial option pricing model, taking into account the terms and conditions upon which the options were granted, and spread over the respective vesting period during which the employees become unconditionally entitled to the options. At each balance sheet date, the Group revises its estimates of the number of share options that is expected to become vested. The impact of the revision of original estimates, if any, is recognised in the income statement with a corresponding adjustment to the employee share-based compensation reserve over the remaining vesting period. On vesting date, the amount recognised as staff costs is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the employee share-based compensation reserve). The equity amount is recognised in the employee share-based compensation reserve until either the share options are exercised (when it is transferred to the share premium account) or the share options expire (when it is released directly to retained earnings). When the share options are exercised, the proceeds received, net of any directly attributable transaction cost, are credited to share capital (nominal value) and share premium.

## 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

### u. Foreign currency translation

Companies comprising the Group maintain their books and records in the primary currencies of their operations (the “functional currencies”). The consolidated financial statements are presented in Hong Kong dollar, which is the Company’s functional and presentation currency.

Foreign currencies transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in the income statement.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of transactions. Balance sheet items of foreign operations, including goodwill arising on consolidation of foreign operations acquired, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in the currency translation reserve under equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to currency translation reserve under equity. On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in the currency translation reserve under equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

### v. Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing particular products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), and which is subject to risks and returns that are different from those of other segments.

Consistent with the Group’s internal management and financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

### w. Dividend distribution

Dividend distribution to the Company’s shareholders is recognised as a liability in the consolidated financial statements in the period in which the dividends are approved by the Company’s shareholders.

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 (Amount expressed in Hong Kong dollars unless otherwise stated)

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a. The management have made judgements in applying the Group's accounting policies. The judgements that have the most significant effect on the amounts recognised in the financial statements are discussed below:

(i) Sales recognition on properties sold

When the inflow of economic benefits associated with the property sales transaction is assessed to be probable and significant risks and rewards of ownership of properties are transferred to purchasers, the Group recognised revenue in respect of the properties sold.

Management made judgement on whether the economic benefits associated with the property sales transaction will flow to the Group. Likelihood of inflow of economic benefits to the Group is demonstrated by the purchaser's commitment to pay, which in turn is supported by substantial investment that gives the purchaser a stake in the property sufficient that the risk of loss through default motivates the purchaser to honour the obligation to the Group. Inflow of economic benefits associated with the property sales transaction is also assessed by considering location of the property and the prevailing market price of similar properties.

Management has also made judgement on when significant risks and rewards of ownership of properties are transferred to purchasers. Risk and rewards of ownership of properties are transferred to purchasers upon execution of legally binding unconditional sales contracts upon which the beneficial interest in the properties passes to the purchasers.

The judgement on the likelihood of inflow of economic benefits associated with the property sales transaction and the transfer of risks and rewards of ownership of properties would affect the Group's profits for the year and the carrying value of properties under developments/held for sale.

(ii) Purchase price allocation

The fair value of the assets of the subsidiary acquired at the acquisition date was determined by management's assessment of the fair value of the assets. A portion of the purchase price is allocated to the business of the acquired subsidiary based on the projected cash flow forecast of the business. Had management determined that a different fair value of the assets of the subsidiary acquired at the acquisition date and different assumptions used for the preparation of the cash flow forecast of the business of the acquired subsidiary, this would have caused different amount of asset value and goodwill at the date of acquisition.

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS - CONTINUED

b. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Cost of sales and amount payable to the HKSAR Government under the Cyberport Project Agreement

Pursuant to the Cyberport Project Agreement, the Government of the Hong Kong Special Administrative Region (“HKSAR”) is entitled to receive approximately 65 per cent of the surplus cash flow earned from the Cyberport project. The amounts paid and payable to the HKSAR Government are part of the Group’s costs of developing the Cyberport project.

The amount payable to the HKSAR Government is a financial liability that is measured at amortised cost. Borrowing costs associated with this liability are capitalised as part of the property under development.

The estimated cost of developing the Cyberport project, including construction costs and the amounts paid and payable to the HKSAR Government, is allocated to cost of properties sold on a systematic basis over the life of the project using a relative value approach. This approach considers the value of development costs attributable to phases for which revenue has been recognised to date relative to the total expected value of development costs for the development as a whole. The revision of estimates of these relative values during 2008 has resulted in the costs of properties sold recorded in the year ended December 31, 2008 being increased by HK\$38 million.

(ii) Estimated valuation of investment properties

The best evidence of fair value is current prices in an active market for similar leases and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair values estimates. In making its estimates, the Group considers both (i) information from the valuations of investment properties performed by external professional valuers by using the open market value approach and (ii) other principal assumptions including the receipt of contractual rentals, expected future market rentals and discount rates to determine the fair value of the investment properties. Had the Group used different future market rentals, discount rates and other assumptions, the fair value of the investment properties would be different and thus caused impact to the consolidated income statement. As at December 31, 2008, the fair value of the investment properties was HK\$3,831 million.

(iii) Estimated provision for rental guarantee

The rental guarantee in relation to PCCW Tower is accounted for as a financial liability at fair value through profit or loss. The best evidence of fair value is current prices in an active market for similar leases and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair values estimates. The Group’s estimate of fair value is based on estimates of receipt of contractual rentals, future market rentals, occupancy rates, maintenance costs and appropriate discount rates. In making its judgement, management determines the fair value of the rental guarantee using discounted cash flow valuation techniques. Had the estimated future market rentals changed or a different discount rate been used, adjustments to the provision for rental guarantee would be made. As at December 31, 2008, the Group did not have any provision for rental guarantee (see note 31(i) for further details).

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 (Amount expressed in Hong Kong dollars unless otherwise stated)

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS - CONTINUED

(iv) Derivative financial instruments

The fair value of the liability portion of a convertible debt was determined by using a market interest rate for an equivalent non-convertible debt at the date the convertible notes was issued in May 2004. This amount is recorded as a financial liability and is measured on the amortised cost basis using effective interest method minus principal repayment. Had management determined that a different market interest rate of an equivalent non-convertible debt was appropriate at the date the convertible notes was issued in May 2004, this would have caused different amount of finance costs charged to the income statement for each accounting period.

(v) Deferred income tax

While deferred income tax liabilities are provided in full on all taxable temporary differences, deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. In assessing the amount of deferred income tax assets that need to be recognised, the Group considers future taxable income and ongoing prudent and feasible tax planning strategies. In the event that the Group's estimates of projected future taxable income and benefits from available tax strategies are changed, or changes in current tax regulations are enacted that would impact the timing or extent of the Group's ability to utilise the tax benefits of net operating loss carried forward in the future, adjustments to the recorded amount of net deferred income tax assets and income tax would be made. As at December 31, 2008, the total deferred income tax assets recognised was HK\$52 million, with HK\$29 million deferred income tax assets netted off against the deferred income tax liabilities recognised in the consolidated balance sheet (notes 28(a) and 28(b)).

### 4. TURNOVER

Turnover comprises revenues recognised in respect of the following businesses:

HK\$ million	The Group	
	2008	2007
Property development	9,557	2,800
Property investment	230	235
Other businesses	156	99
	<b>9,943</b>	3,134

## 5. SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more consistent with the Group's internal financial reporting.

### a. Business segments

The Group comprises the following main business segments:

- Property development includes property development projects in the Asia-Pacific region.
- Property investment is the investment in properties in Hong Kong and Beijing.
- Other businesses include property management division providing services of property management, facilities management, corporate services and asset management, and ski operation.

HK\$ million	Property development		Property investment		Other businesses		Elimination		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
<b>REVENUE</b>										
External revenue	9,557	2,800	230	235	156	99	—	—	9,943	3,134
Inter-segment revenue	—	—	—	—	39	91	(39)	(91)	—	—
Total revenue	9,557	2,800	230	235	195	190	(39)	(91)	9,943	3,134
<b>RESULT</b>										
Segment results	1,224	642	(368)	157	8	—	—	—	864	799
Unallocated corporate expenses									(171)	(71)
Interest income									88	275
Finance costs									(140)	(133)
Profit before taxation									641	870
Income tax									(128)	(86)
Profit attributable to equity holders of the Company									513	784

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 (Amount expressed in Hong Kong dollars unless otherwise stated)

### 5. SEGMENT INFORMATION - CONTINUED

#### a. Business segments - Continued

HK\$ million	Property development		Property investment		Other businesses		Elimination		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
<b>OTHER INFORMATION</b>										
Capital expenditure										
incurred during the year	45	—	12	16	74	6	—	—	131	22
Depreciation and amortisation	12	8	11	10	7	4	—	—	30	22
(Deficit)/Surplus on revaluation of investment properties recognised in the consolidated income statement	—	—	(534)	14	—	—	—	—	(534)	14
Impairment losses recognised in the consolidated income statement	33	—	—	—	10	11	—	—	43	11
<b>ASSETS</b>										
Segment assets	13,731	14,273	4,216	4,487	164	81	—	—	18,111	18,841
Unallocated corporate assets									1,327	1,518
Consolidated total assets									19,438	20,359
<b>LIABILITIES</b>										
Segment liabilities	8,433	10,187	286	384	66	56	—	—	8,785	10,627
Unallocated corporate liabilities									2,216	2,108
Consolidated total liabilities									11,001	12,735



## 5. SEGMENT INFORMATION - CONTINUED

### b. Geographical segments

The Group's businesses are managed and operated in the Asia-Pacific region. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of operations. Segment assets and capital expenditure are based on the geographical location of the assets.

HK\$ million	Revenue from external customers		Segment assets		Capital expenditure incurred during the year	
	2008	2007	2008	2007	2008	2007
Hong Kong	9,659	2,894	13,457	14,311	14	5
Mainland China	235	232	4,954	5,085	56	14
Japan	49	8	461	317	60	3
Thailand	—	—	566	646	1	—
	9,943	3,134	19,438	20,359	131	22

## 6. OTHER LOSSES, NET

HK\$ million	The Group	
	2008	2007
Loss on rental guarantee	12	36
Impairment losses	10	11
Gain on disposal of subsidiaries (note 33)	(4)	—
(Gain)/Unrealised loss on derivative financial instrument	(7)	7
	11	54

## 7. FINANCE COSTS

HK\$ million	The Group	
	2008	2007
Interest expenses:		
Convertible notes wholly repayable after 5 years (note 21)	140	133

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 (Amount expressed in Hong Kong dollars unless otherwise stated)

### 8. PROFIT BEFORE TAXATION

Profit before taxation is stated after crediting and charging the following:

HK\$ million	The Group	
	2008	2007
Crediting:		
Gross rental income from investment properties	230	235
Other rental income	6	3
Less: outgoings	(26)	(18)
Charging:		
Cost of properties sold	8,070	1,932
Depreciation	21	15
Amortisation of leasehold land	9	7
Staff costs, included in:		
- cost of sales	52	70
- general and administrative expenses	146	119
Contributions to defined contribution retirement scheme, included in:		
- cost of sales	3	4
- general and administrative expenses	7	2
Auditors' remuneration	3	2
Operating lease rental of land and buildings, included in:		
- cost of sales	3	2
- general and administrative expenses	11	4
Operating lease rental of equipment	1	3
Deficit/(Surplus) on revaluation of investment properties	534	(14)
Provision for impairment of trade receivables	33	—
Net foreign exchange loss	6	4

## 9. DIRECTORS' EMOLUMENTS

### a. Cash and cash equivalents paid/payable by the Group during the year

HK\$'000	The Group				The Group			
	2008				2007			
	Directors' fee	Salaries, allowances, other allowances and benefits in kind	Bonuses	Retirement scheme contributions	Directors' fee	Salaries, allowances, other allowances and benefits in kind	Bonuses	Retirement scheme contributions
<b>Executive Directors</b>								
Li Tzar Kai, Richard (note i)	—	—	—	—	—	—	—	—
Lee Chi Hong, Robert	—	11,000	18,340	1,130	—	11,000	19,850	988
Alexander Anthony Arena (note i)	—	—	—	—	—	—	—	—
Hubert Chak (note i, ii)	—	—	—	—	—	—	—	—
James Chan	—	3,298	2,778	346	—	3,183	1,450	284
Gan Kim See, Wendy	—	3,298	4,435	346	—	3,183	5,500	334
Lam Yu Yee (note iii)	—	8,480	3,878	807	—	4,386	4,500	576
<b>Independent Non-executive Directors</b>								
Cheung Kin Piu, Valiant	200	—	—	—	200	—	—	—
Tsang Link Carl, Brian	150	—	—	—	150	—	—	—
Prof Wong Yue Chim, Richard, SBS, JP	200	—	—	—	200	—	—	—
Dr. Allan Zeman, GBS, JP	200	—	—	—	200	—	—	—
	750	26,076	29,431	2,629	750	21,752	31,300	2,182



## 9. DIRECTORS' EMOLUMENTS - CONTINUED

### b. Share-based compensation - Continued

	Grant date	Exercise price of share options HK\$	Number of share options/ shares outstanding at beginning of year	The Group 2007		Number of share options/ shares vested	Share-based compensation charged to income statement (note ii) HK\$'000	Realised benefits (note i) HK\$'000
				Number of share options/ exercised/ shares transferred	Number of share options/ shares outstanding at end of year			
<b>Executive Directors</b>								
Lee Chi Hong, Robert	July 25, 2003	4.35	5,000,000	—	5,000,000	5,000,000	—	—
	February 8, 2005	4.475	1,000,000	—	1,000,000	1,000,000	26	—
James Chan	July 25, 2003	4.35	210,000	—	210,000	210,000	—	—
Gan Kim See, Wendy	July 25, 2003	4.35	240,000	—	240,000	240,000	—	—
							26	—

#### i. Realised benefits

No director exercised share options in 2008 and 2007. The realised benefits represent the market value of the relevant shares at the date of transfer.

#### ii. Share-based compensation charged to income statement

Share-based compensation is a trinomial option pricing model calculation of the fair value of share options at the date of grant. Share-based compensation is amortised in the income statement over the vesting period of the related share options. These values do not represent realisable gains which are affected by a combination of a number of factors, including, performance of PCCW's share price, vesting period and timing of exercise. The details of these share options are disclosed in note 25.

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 (Amount expressed in Hong Kong dollars unless otherwise stated)

### 10. FIVE TOP-PAID EMPLOYEES

- a. Of the five highest paid individuals in the Group, four (2007: four) are directors whose emoluments are set out in note 9. Details of the emoluments of the remaining highest paid individual (2007: one) are as follows:

HK\$ million	The Group	
	2008	2007
Salaries and other short-term employee benefits	3	—
Bonuses (note i)	1	13
	<b>4</b>	<b>13</b>

- i. In 2007, a bonus was paid by the Group to a director of a subsidiary whose other emoluments is borne by PCCW, the ultimate holding company of the Group.
- b. The emoluments of the remaining individual (2007: one) are within the emolument ranges as set out below:

	The Group Number of individuals	
	2008	2007
HK\$3,900,001 - HK\$4,000,000	1	—
HK\$12,900,001 - HK\$13,000,000	—	1
	<b>1</b>	<b>1</b>

The employees, whose emoluments are disclosed above, include senior executives who were also directors of the subsidiaries during the year. No directors waived the right to receive emoluments during the current and prior years.

## 11. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5 per cent (2007: 17.5 per cent) on the estimated assessable profits for the year.

Taxation for overseas subsidiaries has been calculated on the estimated assessable profits for the year at the rates prevailing in the respective jurisdictions.

HK\$ million	The Group	
	2008	2007
Hong Kong profits tax		
– Provision for current year	222	125
– (Over)/Under provision in respect of prior years	(9)	1
Overseas income tax		
– Provision for current year	30	39
– Under provision in respect of prior years	—	2
Deferred income tax relating to the origination and reversal of temporary differences (note 28)	(115)	(81)
	<b>128</b>	86

- a. On March 16, 2007, the National People's Congress approved the Enterprise Income Tax Law of The People's Republic of China (the "new EIT Law"). The new EIT Law reduces the corporate income tax rate applicable to the Group's operations in mainland China from 33 per cent to 25 per cent with effect from January 1, 2008. Accordingly, the deferred income tax assets and liabilities for the Group's operations in mainland China were provided at the rate of 25 per cent on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases. The effect on the change in corporate income tax rate applicable to the Group's operations in mainland China was recognised in the consolidated income statement for the year ended December 31, 2007.

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 (Amount expressed in Hong Kong dollars unless otherwise stated)

### 11. INCOME TAX - CONTINUED

Reconciliation between income tax and the Group's accounting profit at applicable tax rates is set out below:

HK\$ million	The Group	
	2008	2007
Profit before taxation	641	870
Notional tax on profit before taxation, calculated at 16.5 per cent (2007: 17.5 per cent)	106	152
Effect of different tax rate of subsidiaries operating overseas	(26)	24
Reversal of deferred income tax liabilities due to change of tax rate in mainland China	—	(90)
Income not subject to taxation	(15)	(47)
Expenses not deductible for taxation purposes	55	33
Tax losses not recognised	17	11
(Over)/Under provision in respect of prior years	(9)	3
Income tax	128	86

### 12. DIVIDENDS

HK\$ million	The Group	
	2008	2007
Interim dividend paid (2007: 1.5 Hong Kong cents per ordinary share)	—	36



### 13. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share based on the share capital of the Company are as follows:

	2008	2007
<b>Earnings</b> (HK\$ million)		
Earnings for the purpose of calculating the basic earnings per share	513	784
Finance costs on convertible notes	140	133
<hr/>		
Earnings for the purpose of calculating the diluted earnings per share	653	917
<hr/>		
	2008	2007
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of calculating the basic earnings per share	2,407,459,873	2,405,596,859
Effect of dilutive potential ordinary shares on conversion of convertible notes and employee share options	672,479,242	672,414,919
<hr/>		
Weighted average number of ordinary shares for the purpose of calculating the diluted earnings per share	3,079,939,115	3,078,011,778
<hr/>		

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 (Amount expressed in Hong Kong dollars unless otherwise stated)

### 14. INVESTMENT PROPERTIES

HK\$ million	The Group	
	2008	2007
Balance at January 1,	4,153	3,861
Addition	—	4
Disposal of subsidiaries (note 33)	(49)	—
(Deficit)/Surplus on revaluation of investment properties	(534)	14
Exchange differences	261	274
Balance at December 31,	3,831	4,153

Investment properties were revalued as at December 31, 2008 by an independent valuer. The basis of valuation for investment properties was open market value. The fair value written down during the year amounted to HK\$534 million (2007: gain of HK\$14 million) was charged to the consolidated income statement as “(Deficit)/Surplus on revaluation of investment properties”.

In the consolidated income statement, cost of sales includes direct operating expenses of HK\$26 million (2007: HK\$18 million) that generate rental income while direct operating expenses of HK\$11 million (2007: HK\$3 million) relating to investment properties that were unlet.

The carrying amount of investment properties is analysed as follows:

HK\$ million	The Group	
	2008	2007
Held in Hong Kong		
On medium-term lease (10-50 years)	—	49
Held in mainland China		
On long lease (over 50 years)	748	769
On medium-term lease (10-50 years)	3,083	3,335
	3,831	4,153

## 15. PROPERTY, PLANT AND EQUIPMENT

HK\$ million	The Group			Total
	Freehold land	Buildings and structures	Other plant and equipment	
At January 1, 2007				
At cost	—	—	89	89
Less: Accumulated depreciation	—	—	(46)	(46)
Net book value	—	—	43	43
Net book value at January 1, 2007	—	—	43	43
Additions	—	—	18	18
Addition due to acquisition of ski operation of a subsidiary (note 34)	3	6	3	12
Depreciation	—	—	(15)	(15)
Exchange differences	—	—	2	2
Net book value at December 31, 2007	3	6	51	60
At December 31, 2007				
At cost	3	6	113	122
Less: Accumulated depreciation	—	—	(62)	(62)
Net book value	3	6	51	60
Net book value at January 1, 2008	<b>3</b>	<b>6</b>	<b>51</b>	<b>60</b>
Additions	—	<b>49</b>	<b>82</b>	<b>131</b>
Disposal of subsidiaries (notes 33)	—	—	(2)	(2)
Depreciation	—	(1)	(20)	(21)
Exchange differences	<b>1</b>	<b>1</b>	<b>3</b>	<b>5</b>
Net book value at December 31, 2008	<b>4</b>	<b>55</b>	<b>114</b>	<b>173</b>
At December 31, 2008				
At cost	<b>4</b>	<b>56</b>	<b>198</b>	<b>258</b>
Less: Accumulated depreciation	—	(1)	(84)	(85)
Net book value	<b>4</b>	<b>55</b>	<b>114</b>	<b>173</b>

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 (Amount expressed in Hong Kong dollars unless otherwise stated)

### 16. PROPERTIES UNDER DEVELOPMENT/HELD FOR SALE/HELD FOR DEVELOPMENT

#### a. Properties under development/held for sale

HK\$ million	The Group	
	2008	2007
Properties under development	957	9,231
Less: Properties under development classified as non-current assets	(626)	(795)
	331	8,436
Properties held for sale	2,071	697
Properties under development/held for sale classified as current assets	2,402	9,133

- i. Pursuant to an agreement dated May 17, 2000 entered into with the HKSAR Government (“Cyberport Project Agreement”), the Group was granted an exclusive right and obligation to design, develop, construct and market the Cyberport project at Telegraph Bay on the Hong Kong Island. The Cyberport project consists of commercial and residential portions. The completed commercial portion was transferred to the HKSAR Government at no consideration. The associated costs incurred have formed part of the development costs of the residential portion. The construction of residential portion of the Cyberport project was completed in November 2008.
- ii. As at December 31, 2008, the net book value of leasehold land included in properties under development was approximately HK\$713 million (2007: HK\$686 million).

#### b. Properties held for development

HK\$ million	The Group	
	2008	2007
Balance at January 1,	816	—
Additions	—	801
Exchange differences	44	15
Balance at December 31,	860	816

Properties held for development represents freehold land in Japan and Thailand, for which the Group intends for future development projects. The land in Japan is held by an indirectly wholly-owned subsidiary, Nihon Harmony Resorts K.K.. The land in Thailand is held by the Group through a long-term operating lease agreement with the legal owners, 39 per cent owned entities, established to hold the land, whose financial statements have been consolidated into these financial statements (note 19).

## 17. GOODWILL

HK\$ million	The Group	
	2008	2007
Balance at January 1,	93	81
Addition arising from acquisition of the ski operation of a subsidiary (note 34)	—	10
Exchange differences	3	2
Balance at December 31,	96	93

Goodwill is allocated to the Group's cash-generating units identified as follows:

HK\$ million	The Group	
	2008	2007
Property development division	81	81
Other business - ski operation	15	12
Balance at December 31,	96	93

Management has performed assessments on the recoverable amount of the above cash-generating units and considered there is no impairment of goodwill as at December 31, 2008. The recoverable amount of the property development division is determined based on the projected cash flow forecast of each property development project, with management's best estimates of the sales proceeds, construction costs and other operating expenses. The recoverable amount of the ski operation is determined based on the projected cash flow forecast of the business.

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 (Amount expressed in Hong Kong dollars unless otherwise stated)

### 18. INVESTMENT IN SUBSIDIARIES

HK\$ million	The Company	
	2008	2007
Unlisted shares, at cost	2,870	2,870

Dividends from the mainland China entities accounted for as subsidiaries will be declared based on the profits in the statutory financial statements of these mainland China entities which are prepared using accounting principles generally accepted in The People's Republic of China. Such profits are different from the amounts reported under HKFRS.

As at December 31, 2008, the Group has financed the operations of certain of its entities in mainland China amounting to approximately US\$113 million (2007: US\$117 million) which have not been registered with the State Administration of Foreign Exchange. As a result, remittances in foreign currency of these amounts outside mainland China may be restricted.

The balances with subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment. The amounts due from subsidiaries as at December 31, 2008 were HK\$3,128 million (2007: HK\$2,913 million).

## 19. PRINCIPAL SUBSIDIARIES AND ENTITIES CONSOLIDATED INTO THE FINANCIAL STATEMENTS

Company name	Place of incorporation/ operations	Principal activities	Nominal value of issued capital/ registered capital	Equity interest attributable to the Company	
				Directly	Indirectly
Beijing Jing Wei House and Land Estate Development Co., Ltd. 北京京威房地產開發有限公司 <sup>1</sup>	The People's Republic of China	Property development	US\$100,000,000	—	100%
Beijing Jingwei Property Management Co., Ltd. 北京京威物業管理有限公司 <sup>2</sup>	The People's Republic of China	Property management	US\$410,000	—	100%
北京啓夏房地產開發有限公司 <sup>3</sup>	The People's Republic of China	Property development	US\$78,000,000	—	100%
Carlyle International Limited	Hong Kong	Entrustment work	HK\$2	—	100%
Cyber-Port Limited	Hong Kong	Property development	HK\$2	—	100%
Cyber-Port Management Limited	Hong Kong	Provision of project management services	HK\$2	—	100%
Dong Si (Holdings) Limited	Hong Kong	Investment holding	HK\$1	—	100%
Ipswich Holdings Limited	British Virgin Islands	Investment holding	US\$2	100%	—
Island South Property Management Limited	Hong Kong	Property management	HK\$2	—	100%
Madeline Investments Limited 盈科大衍地產發展有限公司	Hong Kong	Trademark registrant	HK\$2	—	100%
Nihon Harmony Resorts K.K. <sup>4</sup>	Japan	Project development	JPY405,000,000	—	100%

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### 19. PRINCIPAL SUBSIDIARIES AND ENTITIES CONSOLIDATED INTO THE FINANCIAL STATEMENTS - CONTINUED

Company name	Place of incorporation/ operations	Principal activities	Nominal value of issued capital/ registered capital	Equity interest attributable to the Company	
				Directly	Indirectly
Partner Link Investments Limited	British Virgin Islands/ Hong Kong	Investment holding	US\$1	—	100%
PCPD Facilities Management Limited	Hong Kong	Property management	HK\$2	—	100%
PCPD Real Estate Agency Limited	Hong Kong	Property sales agency	HK\$2	—	100%
PCPD Services Limited	Hong Kong	Provision of administrative services	HK\$2	—	100%
PCPD Wealth Limited	Hong Kong	Investment holding	HK\$1	—	100%
Talent Master Investments Limited	British Virgin Islands/ Hong Kong	Property development	US\$1	—	100%
Phang-nga Leisure Limited	Thailand	Property holding	THB1,000,000	—	39%
Phang-nga Paradise Limited	Thailand	Property holding	THB2,000,000	—	39%

Notes:

- 1 Represents a Sino-foreign cooperative joint venture.
- 2 Represents a wholly foreign investment enterprise.
- 3 Represents a wholly foreign owned enterprise.
- 4 The subsidiary has accounting year end date of June 30. This subsidiary prepares, for the purpose of consolidation, financial statements as at the same date as the Group.



## 20. CURRENT ASSETS AND LIABILITIES

### a. Sales proceeds held in stakeholders' accounts

The balance represents proceeds from the sales of properties of the Group's property development projects that are retained in bank accounts opened and maintained by stakeholders. For the amounts related to residential portion of Cyberport project, they will be transferred to specific bank accounts, which are restricted in use, pursuant to certain conditions and procedures as stated in the Cyberport Project Agreement. The sales proceeds held in stakeholders' accounts of HK\$6,994 million as at December 31, 2008 (2007: HK\$2,425 million) are exposed to credit risk.

### b. Restricted cash

Pursuant to the Cyberport Project Agreement, the Group has a restricted cash balance of approximately HK\$720 million as at December 31, 2008 (2007: HK\$575 million) held in specific bank accounts. The uses of the funds are specified in the Cyberport Project Agreement.

### c. Trade receivables, net

HK\$ million	The Group	
	2008	2007
Trade receivables	1,951	332
Less: Provision for impairment	(33)	—
Trade receivables, net	1,918	332

Trade receivables in respect of properties sold are payable by the purchasers pursuant to the terms of the sales contracts. Other trade receivables have a normal credit period ranges up to 30 days from the date of the invoice unless there is separate mutual agreement on extension of the credit period.

Trade receivables of HK\$1,951 million (2007: HK\$332 million) are exposed to credit risk. Trade receivables of HK\$209 million as at December 31, 2008 is due from an independent customer that was overdue for more than six months and impairment loss of HK\$33 million was recognised. The other amounts in trade receivables balance relate to a number of independent customers for whom there is no recent history of default.

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 (Amount expressed in Hong Kong dollars unless otherwise stated)

### 20. CURRENT ASSETS AND LIABILITIES - CONTINUED

#### c. Trade receivables, net - Continued

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

HK\$ million	The Group	
	2008	2007
Hong Kong dollar	1,913	327
Renminbi	1	1
Japanese Yen	4	4
	<b>1,918</b>	<b>332</b>

#### (i) Aging analysis of trade receivables

HK\$ million	The Group	
	2008	2007
Current	1,742	330
One to three months	—	1
More than three months	209	1
	<b>1,951</b>	<b>332</b>

#### (ii) Provision for receivable impairment

The movement in the provision for receivable impairment during the year, including specific and collective loss components, is as follows:

HK\$ million	The Group	
	2008	2007
Balance at January 1,	—	—
Impairment loss recognised	33	—
Balance at December 31,	<b>33</b>	<b>—</b>

## 20. CURRENT ASSETS AND LIABILITIES - CONTINUED

### c. Trade receivables, net - Continued

#### (iii) Trade receivables that are not impaired

Trade receivables that are less than three months past due is not considered impaired. As at December 31, 2008, no trade receivables (2007: HK\$1 million) was past due over three months but not impaired. The 2007 balance was related to a number of independent customers for whom there was no recent history of default, and was past due for three to six months.

### d. Trade payables

An aging analysis of trade payables is set out below:

HK\$ million	The Group	
	2008	2007
Current	191	111
One to three months	—	3
	<b>191</b>	114

### e. Accruals, other payables and deferred income

Accruals, other payables and deferred income represents accrual for construction costs and operating costs, retention payables, tenants deposits and deferred income.

### f. Gross amounts due to customers for contract works

HK\$ million	The Group	
	2008	2007
Contract costs incurred plus attributable profits less foreseeable losses	789	779
Less: Estimated value of work performed	(794)	(786)
	<b>(5)</b>	(7)

The total amount of progress billings, included in the estimated value of work performed as at December 31, 2008, was approximately HK\$794 million (2007: HK\$786 million).

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 (Amount expressed in Hong Kong dollars unless otherwise stated)

### 21. LONG-TERM BORROWINGS

HK\$ million	The Group		
	Long-term borrowings	2008 Convertible notes reserve	Total
Balance at January 1, 2008	2,013	769	2,782
Finance costs charged to consolidated income statement (note a)	140	—	140
Interest paid	(24)	—	(24)
Balance at December 31, 2008	2,129	769	2,898
Less: Amount classified as current liabilities	(24)	—	(24)
	2,105	769	2,874

HK\$ million	The Group		
	Long-term borrowings	2007 Convertible notes reserve	Total
Balance at January 1, 2007	1,904	769	2,673
Finance costs charged to consolidated income statement (note a)	133	—	133
Interest paid	(24)	—	(24)
Balance at December 31, 2007	2,013	769	2,782
Less: Amount classified as current liabilities	(24)	—	(24)
	1,989	769	2,758

## 21. LONG-TERM BORROWINGS - CONTINUED

Long-term borrowings comprise the outstanding principal amount of the convertible notes or any part that may, at the discretion of PCCW or its designated subsidiary, the holder of the notes, be converted into the ordinary shares of the Company, issued to PCCW or its designated subsidiary at any time and from time to time on or after the date of issue (but on or prior to the maturity date) at the relevant conversion price.

- a. Interest expense on the convertible notes is calculated using the effective interest method by applying the effective interest rate of 6.87 per cent (2007: 6.87 per cent) to the liability component.
- b. The tranche B note due 2014 with a principal amount of HK\$2,420 million could be converted into 672,222,222 new shares of HK\$0.10 each at a conversion price of HK\$3.60 per share, subject to adjustment. The tranche B note due 2014 may be redeemed at 120 per cent of the outstanding principal amount if conversion does not occur. The Company has granted rights to an indirectly wholly-owned subsidiary to purchase 672,222,222 shares of the Company at HK\$3.6 per share with expiry in 2014.

## 22. AMOUNT PAYABLE TO THE HKSAR GOVERNMENT UNDER THE CYBERPORT PROJECT AGREEMENT

HK\$ million	The Group		
	Government share under the Cyberport Project Agreement (note a)	Others	Total
Balance at January 1, 2008	6,886	33	6,919
(Deduction)/Addition to amount payable	(379)	1	(378)
Settlement during the year	(358)	(7)	(365)
Balance at December 31, 2008	6,149	27	6,176
Less: Amount classified as current liabilities	(4,954)	(27)	(4,981)
	1,195	—	1,195

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 (Amount expressed in Hong Kong dollars unless otherwise stated)

### 22. AMOUNT PAYABLE TO THE HKSAR GOVERNMENT UNDER THE CYBERPORT PROJECT AGREEMENT - CONTINUED

HK\$ million	Government share under the Cyberport Project Agreement (note a)	The Group 2007	
		Others	Total
Balance at January 1, 2007	3,480	25	3,505
Addition to amount payable	6,745	33	6,778
Settlement during the year	(3,339)	(25)	(3,364)
Balance at December 31, 2007	6,886	33	6,919
Less: Amount classified as current liabilities	(5,145)	(33)	(5,178)
	1,741	—	1,741

- a. Pursuant to the Cyberport Project Agreement (note 16(a)(i)), the HKSAR Government shall be entitled to receive payments of approximately 65 per cent from the surplus cashflow arising from the sales of the residential portion of the Cyberport project, net of certain allowable costs incurred on the project, as stipulated under certain terms and conditions of the Cyberport Project Agreement. Amount payable to the HKSAR Government is included in properties under development/held for sale as the amount is considered as a part of the development costs for the Cyberport project. The amount payable to the HKSAR Government is based on estimated sales proceeds of the residential portion of the project and the estimated development costs of the Cyberport project. The estimated amount to be paid to the HKSAR Government during the forthcoming year is classified as current liabilities.

## 23. ISSUED EQUITY

	The Group	
	Number of shares (note a)	Issued equity HK\$ million (note a)
Ordinary shares of HK\$0.10 each at January 1, 2007	2,402,459,873	4,309
Issue of new shares for exercise of share options (note c)	5,000,000	12
Ordinary shares of HK\$0.10 each at December 31, 2007 and December 31, 2008	<b>2,407,459,873</b>	<b>4,321</b>

- a. Due to the use of reverse acquisition basis of accounting (as stated in note 2(d) to the 2004 Financial Statements), the amount of issued equity, which includes share capital and share premium in the consolidated balance sheet, represents the amount of issued equity of the legal subsidiary, Ipswich Holdings Limited, at date of completion of the reverse acquisition plus equity changes attributable to the Group after the reverse acquisition. The equity structure (i.e. the number and type of shares) reflects the equity structure of the legal parent, Pacific Century Premium Developments Limited, for all accounting periods presented.
- b. The following is the movement in the share capital of the Company:

	The Company	
	Number of shares	Nominal value HK\$ million
Authorised:		
Ordinary shares of HK\$0.10 each at January 1, 2007, December 31, 2007 and December 31, 2008	<b>10,000,000,000</b>	<b>1,000</b>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each at January 1, 2007	2,402,459,873	240
Issue of new shares for exercise of share options (note c)	5,000,000	1
Ordinary shares of HK\$0.10 each at December 31, 2007 and December 31, 2008	<b>2,407,459,873</b>	<b>241</b>

- c. During 2007, 5,000,000 share options were exercised by an eligible option holder at HK\$2.375 for a total cash consideration of HK\$11,875,000 resulting in the issue of 5,000,000 new ordinary shares of HK\$0.10 each.

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 (Amount expressed in Hong Kong dollars unless otherwise stated)

### 24. EMPLOYEE RETIREMENT BENEFITS

#### Defined contribution retirement scheme

Employees of the Group are entitled to join the defined contribution retirement schemes operated by PCCW, including the Mandatory Provident Fund Scheme (the “MPF scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The schemes are administered by independent trustees.

Under the defined contribution retirement scheme, the employer is required to make contributions to the scheme at rates specified under the rules of the scheme. Where employees leave the scheme prior to the full vesting of the employer’s contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5 per cent of the employees’ relevant income, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the scheme vest immediately upon the completion of the service in the relevant service period.

### 25. EQUITY COMPENSATION BENEFITS

#### Share option scheme

In order to align the terms of the share option scheme of the Company with those of PCCW and in view of the limited number of shares capable of being issued relative to the current capital base of the Company, under the 2003 share option scheme, which was approved and adopted on March 17, 2003 and was valid for ten years after the date of adoption, the shareholders of the Company approved the termination of the 2003 share option scheme and adoption of a new share option scheme (the “2005 Scheme”) at the Company’s annual general meeting held on May 13, 2005. The 2005 Scheme became effective on May 23, 2005 following its approval by the shareholders of PCCW. No further share options will be granted under the 2003 share option scheme following its termination, but the provisions of such scheme will remain in full force and effect with respect to the options granted (note (ii) below) prior to its termination.

Under the 2005 Scheme, the board of directors of the Company may, at its discretion, grant share options to any eligible person to subscribe for shares in the Company subject to the terms and conditions stipulated in the 2005 Scheme. The exercise price of the options under the 2005 Scheme is determined by the board of directors of the Company in its absolute discretion but in any event shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotations sheet of the Stock Exchange on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheet of the Stock Exchange for the five days last preceding the date of grant on which days it has been possible to trade shares on the Stock Exchange; and (iii) the nominal value of the share of the Company on the date of grant. The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2005 Scheme and any other share option schemes of the Company must not exceed 30 per cent of the shares in issue from time to time. In addition, the maximum number of shares in respect of which options may be granted under the 2005 Scheme shall not (when aggregated with any shares subject to any grants made after May 23, 2005 pursuant to any other share option schemes of the Company) exceed 10 per cent of the issued share capital of the Company on May 23, 2005 (or some other date if renewal of this limit is approved by shareholders).



## 25. EQUITY COMPENSATION BENEFITS - CONTINUED

### Share option scheme - Continued

Details of share options granted by the Company pursuant to the 2003 share option scheme and the share options outstanding at December 31, 2008, are as follows:

#### (i) Movements in share options

	Number of options	
	2008	2007
Balance at January 1,	5,000,000	10,000,000
Exercised during the year	—	(5,000,000)
Balance at December 31, (note (ii))	5,000,000	5,000,000
Options vested at December 31,	5,000,000	5,000,000

#### (ii) Details of share options outstanding as at December 31,

Date of grant	Exercise period	Exercise price HK\$	2008		2007	
			Consideration received HK\$	Number of options	Consideration received HK\$	Number of options
December 20, 2004	December 20, 2004 to December 19, 2014	2.375	1	5,000,000	1	5,000,000
			1	5,000,000	1	5,000,000

During the years ended December 31, 2008 and December 31, 2007, no share options were granted under the 2005 Scheme or 2003 share option scheme. All of the share options granted related to 2003 share option scheme remained unexpired as at December 31, 2008.

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 (Amount expressed in Hong Kong dollars unless otherwise stated)

### 25. EQUITY COMPENSATION BENEFITS- CONTINUED

Share option scheme- Continued

(iii) Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2008		2007	
	Average exercise price in HK\$ per share	Number of options	Average exercise price in HK\$ per share	Number of options
Balance at January 1,	2.375	5,000,000	2.375	10,000,000
Exercised during the year	—	—	2.375	(5,000,000)
Balance at December 31,	2.375	5,000,000	2.375	5,000,000

All the share options outstanding at the end of the year will expire on December 19, 2014.

The weighted average share price at the date of exercise for share options exercised during 2007 was HK\$2.46.

The total fair value of the 10,000,000 share options granted in December 2004 under 2003 share option scheme determined using the trinomial option pricing model was HK\$12.9 million using share price of HK\$2.325, exercise price of HK\$2.375, risk-free interest rate of 3.95 per cent, volatility of 0.50 with expected life for ten years and no expected dividend per share. As the share options were vested before January 1, 2005, no expenses were charged to the current and prior years' consolidated income statements as allowed by the transitional provision of HKFRS 2 "Share-based Payment".

## 26. RESERVES

HK\$ million	The Company						
	2008						
	Share premium	Capital redemption reserve	Other reserve	Contributed surplus	Employee share-based compensation reserve	Retained earnings	Total
Balance at January 1, 2008	3,882	1	769	—	17	871	5,540
Profit for the year	—	—	—	—	—	216	216
Total recognised income for 2008	—	—	—	—	—	216	216
Balance at December 31, 2008	3,882	1	769	—	17	1,087	5,756

HK\$ million	The Company						
	2007						
	Share premium	Capital redemption reserve	Other reserve	Contributed surplus	Employee share-based compensation reserve	Retained earnings	Total
Balance at January 1, 2007	3,871	1	769	21	17	373	5,052
Profit for the year	—	—	—	—	—	645	645
Total recognised income for 2007	—	—	—	—	—	645	645
Issue of new shares for exercise of share options (note 23(c))	11	—	—	—	—	—	11
2006 final dividend paid	—	—	—	(21)	—	(111)	(132)
2007 interim dividend paid	—	—	—	—	—	(36)	(36)
Balance at December 31, 2007	3,882	1	769	—	17	871	5,540

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 (Amount expressed in Hong Kong dollars unless otherwise stated)

### 27. EMPLOYEE SHARE-BASED COMPENSATION RESERVE

HK\$ million	The Group	
	2008	2007
At January 1, and December 31,	17	17

The share options are granted to the directors and employees of the Group to subscribe for shares in PCCW or the Company in accordance with the terms and conditions of the share option scheme (note 2(t)(iii)).

### 28. DEFERRED INCOME TAX

a. The components of deferred income tax liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

HK\$ million	The Group			Total
	Accelerated tax depreciation	Revaluation of properties	Others	
At January 1, 2007	236	148	(9)	375
Credited to consolidated income statement (note 11)	(32)	(34)	(6)	(72)
Exchange differences	16	9	(2)	23
At December 31, 2007	220	123	(17)	326
At January 1, 2008	<b>220</b>	<b>123</b>	<b>(17)</b>	<b>326</b>
Charged/(Credited) to consolidated income statement (note 11)	<b>28</b>	<b>(134)</b>	<b>4</b>	<b>(102)</b>
Disposal of subsidiaries (note 33)	<b>(1)</b>	<b>(3)</b>	<b>—</b>	<b>(4)</b>
Exchange differences	<b>13</b>	<b>8</b>	<b>(1)</b>	<b>20</b>
At December 31, 2008	<b>260</b>	<b>(6)</b>	<b>(14)</b>	<b>240</b>

HK\$ million	The Group	
	2008	2007
Deferred income tax liabilities recognised in the consolidated balance sheet	269	348
Less: Amount of deferred income tax assets netted off against deferred income tax liabilities recognised in the consolidated balance sheet	(29)	(22)
Balance at December 31,	240	326

## 28. DEFERRED INCOME TAX - CONTINUED

- b. The deferred income tax assets in respect of tax losses carried forward are recognised to the extent that realisation of the related tax benefit through utilisation against future taxable profits is probable. The components of deferred income tax assets recognised in the consolidated balance sheet and the movements during the year are as follows:

HK\$ million	The Group		
	Tax losses	Others	Total
At January 1, 2007	1	—	1
(Charged)/Credited to consolidated income statement (note 11)	(1)	10	9
At December 31, 2007	—	10	10
At January 1, 2008	—	<b>10</b>	<b>10</b>
Credited/(Charged) to consolidated income statement (note 11)	<b>16</b>	<b>(3)</b>	<b>13</b>
At December 31, 2008	<b>16</b>	<b>7</b>	<b>23</b>

- c. The Group has unrecognised estimated tax losses of HK\$195 million as at December 31, 2008 (2007: HK\$225 million) to be carried forward for deduction against future taxable profits. HK\$45 million (2007: HK\$60 million) tax losses relating to overseas companies would be expired within four to seven years from December 31, 2008, the remaining HK\$150 million (2007: HK\$165 million) tax losses are mainly relating to Hong Kong companies which can be carried forward indefinitely.

## NOTES TO THE FINANCIAL STATEMENTS

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### 29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

#### a. Reconciliation of profit before taxation to net cash used in operating activities

HK\$ million	The Group	
	2008	2007
Profit before taxation	641	870
Adjustments for:		
Interest income	(88)	(275)
Finance costs	140	133
Provision for receivable impairment	33	—
(Gain)/Unrealised loss on derivative financial instrument	(7)	7
Gain on disposal of subsidiaries	(4)	—
Depreciation	21	15
Amortisation of leasehold land	9	7
Provision of rental guarantee	—	6
Impairment loss	10	11
Deficit/(Surplus) on revaluation of investment properties	534	(14)
<b>Operating profit before changes in working capital</b>	<b>1,289</b>	<b>760</b>

## 29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT - CONTINUED

## a. Reconciliation of profit before taxation to net cash used in operating activities - Continued

HK\$ million	The Group	
	2008	2007
Decrease/(Increase) in operating assets:		
- properties under development/held for sale	6,927	(5,897)
- properties held for development	—	(801)
- other non-current receivables	9	(16)
- prepayments, deposits and other current assets	(63)	(25)
- sales proceeds held in stakeholders' accounts	(4,569)	1,047
- restricted cash	(145)	251
- trade receivables	(1,621)	107
- amounts due from fellow subsidiaries	—	(5)
- amounts due from related companies	1	2
Increase/(Decrease) in operating liabilities:		
- trade payables, accruals, other payables and deferred income	337	(167)
- deposits received on sales of properties	(1,475)	1,846
- gross amounts due to customers for contract work	(2)	—
- amounts due to fellow subsidiaries	—	(2)
- amount due to ultimate holding company	—	(1,195)
- amount payable to the HKSAR Government under the Cyberport Project Agreement	(743)	3,414
- other long-term liabilities	(26)	72
<b>Cash used in operations</b>	<b>(81)</b>	<b>(609)</b>
Interest paid	(24)	(24)
Interest received	88	277
Tax paid		
- Hong Kong profits tax paid	(89)	(186)
- overseas income tax paid	(49)	(30)
<b>Net cash used in operating activities</b>	<b>(155)</b>	<b>(572)</b>

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 (Amount expressed in Hong Kong dollars unless otherwise stated)

### 29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT - CONTINUED

#### b. Analysis of cash and cash equivalents

HK\$ million	The Group	
	2008	2007
Cash and bank balances	2,374	2,440
Less: Short-term deposits	—	(106)
Less: Restricted cash	(720)	(575)
Cash and cash equivalents at December 31,	1,654	1,759

### 30. COMMITMENTS

#### a. Capital

HK\$ million	The Group	
	2008	2007
Authorised and contracted for	184	1,292
Authorised but not contracted for	60	549
	244	1,841



### 30. COMMITMENTS - CONTINUED

#### a. Capital - Continued

An analysis of the above capital commitments by nature is as follows:

HK\$ million	The Group	
	2008	2007
Property development for Cyberport project (note (i))	91	1,618
Property development for other projects	120	190
Investment properties	31	8
Property, plant and equipment	—	23
Others	2	2
	<b>244</b>	1,841

- (i) The capital commitment as disclosed above represented management's best estimate of the total construction costs for the Cyberport project, which has been revised from the total construction costs since the Cyberport Project Agreement was entered into on May 17, 2000.

#### b. Operating leases

- (i) As at December 31, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

Land and buildings (as lessee)

HK\$ million	The Group	
	2008	2007
Within 1 year	19	8
After 1 year but within 5 years	9	15
	<b>28</b>	23

The leases typically run for an initial period of one to five years. None of these leases include contingent rentals.

## NOTES TO THE FINANCIAL STATEMENTS

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### 30. COMMITMENTS - CONTINUED

#### b. Operating leases - Continued

Equipment (as lessee)

HK\$ million	The Group	
	2008	2007
Within 1 year	5	4
After 1 year but within 5 years	4	5
	<b>9</b>	9

The leases typically run for an initial period of one to eight years. None of these leases include contingent rentals.

- (ii) The Group leases out properties under operating leases. The leases typically run for an initial period of one to ten years. Three of the leases include contingent rental with reference to the turnover of the lessees' operations. As at December 31, the total future minimum lease receivable under non-cancellable operating leases are as follows:

Land and buildings (as lessor)

HK\$ million	The Group	
	2008	2007
Within 1 year	192	185
After 1 year but within 5 years	237	312
After 5 years	16	—
	<b>445</b>	497

### 31. GUARANTEES

The guarantees provided by the Group and the Company are set out as follows:

HK\$ million	The Group		The Company	
	2008	2007	2008	2007
Performance guarantee	1	1	—	—

- (i) In 2005, Partner Link Investments Limited (“Partner Link”), an indirectly wholly-owned subsidiary of the Company, entered into the Property Sales and Purchase Agreement with Richly Leader Limited (the “Purchaser”), a third party, for the disposal of PCCW Tower. Under the Property Sales and Purchase Agreement, on completion of the disposal of the PCCW Tower, there is a rental guarantee pursuant to which Partner Link will undertake to the Purchaser that it will pay a guaranteed net monthly rental of approximately HK\$13.3 million to the Purchaser for a period of five years up to February 7, 2010. As at December 31, 2008, the Group did not have any provision (2007: HK\$9 million) in relation to the rental guarantee over the remaining term of the guarantee period.
- (ii) The Company has provided a guarantee to the noteholder of the convertible notes (tranche B note due 2014) in respect of the performance of its indirectly wholly-owned subsidiary’s obligation under the convertible notes (tranche B note due 2014) including the due and punctual payment of all sums under the convertible notes and the issuances of 672,222,222 shares of the Company at HK\$3.6 per share upon conversion of the convertible notes by the noteholder (note 21(b)). Such guarantee has no impact to the Group’s consolidated financial statements.

### 32. BANKING FACILITY

An indirectly wholly-owned subsidiary of the Company had been granted a banking facility amounting to approximately HK\$20 million from a bank for the purpose of providing guarantee to the HKSAR Government as at December 31, 2007. Such facility was to be secured by a bank deposit placed by the subsidiary from time to time to secure the amount of guarantee issued by the bank. No guarantee was issued by the bank under this banking facility as at December 31, 2007. There was no such banking facility as at December 31, 2008.

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 (Amount expressed in Hong Kong dollars unless otherwise stated)

### 33. DISPOSAL OF SUBSIDIARIES

On March 31, 2008, the Group disposed the entire share capital of two subsidiaries to a wholly-owned subsidiary of PCCW. The net assets of these two subsidiaries at the date of disposal were as follows:

HK\$ million	2008
Net assets disposed of :	
Investment properties (note 14)	49
Property, plant and equipment (note 15)	2
Prepayments, deposits and other current assets	1
Accruals, other payables and deferred income	(1)
Deferred income tax liabilities (note 28(a))	(4)
	47
Consideration settled by cash	(51)
Gain on disposal (note 6)	(4)

### 34. BUSINESS COMBINATION

On August 23, 2007, the Group acquired 100 per cent of the share capital of Nihon Harmony Resorts K.K., a company incorporated in Japan, which has a ski operation in Hokkaido, Japan. The acquired business contributed revenues of HK\$8 million and net loss of HK\$7 million to the Group for the period from August 23, 2007 to December 31, 2007.

	The Group
HK\$ million	2007
Purchase consideration in cash for the acquisition on August 23, 2007	179
Direct costs in relation to acquisition	3
	182
Less: Purchase consideration in cash for properties held for development	(159)
Purchase consideration in cash for ski operation of Nihon Harmony Resorts K.K.	23
Fair value of net assets acquired (note (a))	(13)
Goodwill (note 17)	10

The goodwill is attributable to future profit generated from the ski operation.

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 (Amount expressed in Hong Kong dollars unless otherwise stated)

### 34. BUSINESS COMBINATION - CONTINUED

(a) The assets and liabilities of the ski operation as at August 23, 2007 were as follows:

HK\$ million	Fair value	Acquiree's carrying amount
Property, plant and equipment (note 15)	12	12
Other non-current assets	2	2
Trade receivables, net	1	1
Prepayments, deposits and other current assets	1	1
Trade payables	(2)	(2)
Accruals, other payables and deferred income	(1)	(1)
Net assets acquired	13	13
		The Group 2007
Purchase consideration settled in cash		23
Cash and cash equivalents of ski operation acquired		—
Cash outflow on acquisition of ski operation		23

There was no material business combination during the year ended December 31, 2008.

### 35. MATERIAL RELATED PARTY TRANSACTIONS

The Group is controlled by PCCW which owns 61.53 per cent (2007: 61.53 per cent) of the Company's shares. The remaining 38.47 per cent (2007: 38.47 per cent) of the shares are held by public and by a substantial shareholder.

In addition to the transactions and balances disclosed elsewhere in these financial statements, the following transactions were carried out with related parties:

a. During the year, the Group had the following significant transactions with related companies:

HK\$ million	The Group	
	2008	2007
Sales of services:		
- Fellow subsidiaries		
Facility management services	56	53
Office leases rental	8	11
- Related companies		
Facility management services	23	25
Office leases rental	3	3
Purchases of services:		
- Fellow subsidiaries		
Corporate services	3	4
Office sub-leases	9	8
Information technology and other logistic services	29	5
- Related companies		
Other services	1	1

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 (Amount expressed in Hong Kong dollars unless otherwise stated)

### 35. MATERIAL RELATED PARTY TRANSACTIONS - CONTINUED

a. During the year, the Group had the following significant transactions with related companies: - Continued

- (i) On April 17, 2008, the Company announced that the proposed privatisation of the Company made by Picville Investments Limited ("Picville"), a wholly-owned subsidiary of PCCW, was not approved by the independent shareholders at the court meeting held on that day. Accordingly, all the related costs incurred by the Company for the proposed privatisation amounted to approximately HK\$11 million were borne by Picville.
- (ii) On July 31, 2008, the Group purchased a wholly-owned subsidiary of PCCW for a consideration of HK\$3.9 million. This subsidiary has a 10 per cent equity interest in a company which is one of the major tenants of the investment property in Beijing owned by the Group.

The above transactions were carried out after negotiations between the Group and the related parties in the ordinary course of business. In respect of transactions for which the price or volume has not yet been agreed with the relevant related parties, the directors have determined the relevant amounts based on their best estimation.

The related party transactions in respect of items above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Stock Exchange's listing rules.

b. Details of key management compensation

HK\$ million	The Group	
	2008	2007
Salaries and other short-term employee benefits	26	22
Bonuses	29	31
Directors' fee	1	1
Post-employment benefits	3	2
	<b>59</b>	56

The remuneration of executive directors employed by PCCW, the ultimate holding company of the Group, is borne by PCCW.



## 35. MATERIAL RELATED PARTY TRANSACTIONS - CONTINUED

## c. Year-end balances arising from sales/purchases of services and loan interest

HK\$ million	The Group	
	2008	2007
Receivables from related parties:		
- Fellow subsidiaries	10	10
- Related companies	2	3
	<b>12</b>	13
Payables to related parties:		
- Fellow subsidiaries	15	15

## d. Loan from a fellow subsidiary

The loan from a fellow subsidiary represents the face value of the convertible notes (tranche B note due 2014) with principal value of HK\$2,420 million (see note 21(b) for details). The movement of the face value of the loan from a fellow subsidiary during the year are as follows:

HK\$ million	The Group	
	2008	2007
Balance at January 1,	2,596	2,548
Interest expenses	24	24
Interest paid	(24)	(24)
Provision for redemption premium	49	48
Balance at December 31,	<b>2,645</b>	2,596

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 (Amount expressed in Hong Kong dollars unless otherwise stated)

### 36. FINANCIAL RISK MANAGEMENT

The Group's investment policy is to prudently invest all surplus funds managed by the Group in a manner which will satisfy liquidity requirements, safeguard financial assets and manage risks while optimising return on investments.

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and fair value interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's performance.

Risk management is carried out by a central treasury department ("Group Treasury") under policies approved by the Board. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's business units. The Board provides principal policies for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing excess liquidity.

#### a. Foreign exchange risk

The Group operates in the Asia-Pacific region and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The risk management policy is to have the liquid assets mainly denominated in Hong Kong dollars, US dollars and Renminbi. As US dollar is pegged to Hong Kong dollar, the Group does not expect any significant movements in the US dollar/Hong Kong dollar exchange rate. The Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

At the reporting date, the balance sheet exposure to foreign currency risk that is significant to the Group was as follows:

HK\$ million	The Group	
	2008 US dollar	2007 US dollar
Short term deposits	—	106
Cash and cash equivalents	764	525
	<b>764</b>	631

The Group has certain investments in foreign operations, where the net assets are exposed to foreign currency translation risk. The Group's currency exposure with respect to these operations is mainly from Renminbi, Thai baht and Japanese yen.

### 36. FINANCIAL RISK MANAGEMENT - CONTINUED

#### a. Foreign exchange risk - Continued

##### *Sensitivity analysis for foreign currency exposure*

A five per cent appreciation of Hong Kong dollar against the following currencies at December 31, 2008 would have decrease in profit after tax and equity by the amounts shown below. This represents the translation of financial assets and liabilities and the change in fair value of currency derivatives at the balance sheet date. It assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007.

	<b>The Group</b>			
	<b>2008</b>		<b>2007</b>	
HK\$ million	<b>Decrease in profit after tax</b>	<b>Decrease in currency translation reserve</b>	Decrease in profit after tax	Decrease in currency translation reserve
US dollar	(38)	—	(32)	—
Renminbi	—	(231)	—	(234)
Thai baht	—	(26)	—	(28)
Japanese yen	—	(15)	—	(10)

The Company is not exposed to foreign exchange risk.

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 (Amount expressed in Hong Kong dollars unless otherwise stated)

### 36. FINANCIAL RISK MANAGEMENT - CONTINUED

#### b. Credit risk

The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay outstanding amounts in full when due. The Group has policies in place to ensure that the pre-sale of the properties and the sale of completed properties are both binding and enforceable. For the property investment and other business segments, the Group obtained rental deposits from the tenants while for other businesses, the customers are mainly fellow subsidiaries and related parties which the credit risk is relatively low. For the property pre-sale, there is a certain degree of concentrations of credit risk but the Group, through the binding and enforceable pre-sale contracts, manages the concentrated credit risk.

As at 31 December 2008, the Group has a certain concentration of credit risk as 53 per cent (2007: 98 per cent) of the total trade receivables was due from three customers.

The credit quality of cash and cash equivalents and short-term deposits, and restricted cash balances can be assessed by reference to Moody's ratings (if available) as follows:

#### *Cash and cash equivalents and short-term deposits*

HK\$ million	The Group	
	2008	2007
Aaa	—	298
Aa2	655	112
Aa3	36	94
A1	600	701
A2	309	560
Baa1	34	99
Unrated	20	1
Balance as at December 31,	<b>1,654</b>	1,865

Restricted cash of HK\$720 million (2007: HK\$575 million) are deposited into a financial institution with Moody's rating of Aa2.

### 36. FINANCIAL RISK MANAGEMENT - CONTINUED

#### c. Liquidity risk

Due to the dynamic nature of the Group's underlying businesses, prudent liquidity risk management implies maintaining sufficient cash and cash equivalents to meet operational needs and possible investment opportunities.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

HK\$ million	The Group				Total contractual undiscounted cash flow	Carrying Amount
	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years		
At December 31, 2008						
Trade payables	191	—	—	—	191	191
Accruals and other payables	1,600	—	—	—	1,600	1,600
Amounts due to fellow subsidiaries	15	—	—	—	15	15
Amount payable to the HKSAR Government under the Cyberport Project Agreement	4,981	1,195	—	—	6,176	6,176
Long-term borrowings	24	24	73	2,913	3,034	2,129
Other long-term liabilities	—	33	—	—	33	33
At December 31, 2007						
Trade payables	114	—	—	—	114	114
Accruals and other payables	1,272	—	—	—	1,272	1,272
Derivative financial instrument	7	—	—	—	7	7
Amounts due to fellow subsidiaries	15	—	—	—	15	15
Amount payable to the HKSAR Government under the Cyberport Project Agreement	5,178	1,741	—	—	6,919	6,919
Long-term borrowings	24	24	73	2,937	3,058	2,013
Other long-term liabilities	—	86	1	—	87	87

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 (Amount expressed in Hong Kong dollars unless otherwise stated)

### 36. FINANCIAL RISK MANAGEMENT - CONTINUED

#### d. Fair value interest rate risks

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to fair value interest rate risk since the Group's long-term borrowings are fixed rate borrowings. The Group's policy is to maintain stable cash flows by entering into fixed interest rate borrowings.

### 37. CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

Though all borrowings are from the Company's ultimate holding company, PCCW, or its designated subsidiary, the Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher level of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Net debt is calculated as the loan from a fellow subsidiary less cash and cash equivalents and short-term deposits. Adjusted capital comprises the issued equity and retained earnings.

### 37. CAPITAL MANAGEMENT - CONTINUED

The debt-to-adjusted capital ratio increased from 11 per cent as at December 31, 2007 to 13 per cent as at December 31, 2008. Management's strategy is to maintain the debt-to-adjusted capital ratio within 10 per cent to 20 per cent. The debt-to-adjusted capital ratios at both December 31, 2008 and 2007 were as follows:

HK\$ million	The Group	
	2008	2007
Loan from a fellow subsidiary (note 35(d))	2,645	2,596
Less: Cash and cash equivalents (note 29(b))	(1,654)	(1,759)
Less: Short-term deposits (note 29(b))	—	(106)
<b>Net debt</b>	<b>991</b>	731
Issued equity	4,321	4,321
Add: retained earnings	3,083	2,570
<b>Adjusted capital</b>	<b>7,404</b>	6,891
<b>Debt-to-adjusted capital ratio</b>	<b>13%</b>	11%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

# FIVE YEAR FINANCIAL SUMMARY

## Results

HK\$ million	2008	2007	2006	2005	2004
<b>TURNOVER BY PRINCIPAL ACTIVITY</b>					
Property development	9,557	2,800	6,953	4,821	5,415
Property investment	230	235	228	233	358
Other businesses	156	99	82	73	58
	9,943	3,134	7,263	5,127	5,831
Operating profit before (deficit)/surplus on revaluation of investment properties	1,227	714	912	599	682
(Deficit)/Surplus on revaluation of investment properties	(534)	14	2	16	(205)
	693	728	914	615	477
(Finance costs)/Interest income, net	(52)	142	246	95	(164)
Profit before taxation	641	870	1,160	710	313
Income tax	(128)	(86)	(195)	(113)	39
Profit attributable to equity holders of the Company	513	784	965	597	352

## Assets and Liabilities, as at December 31,

HK\$ million	2008	2007	2006	2005	2004
Total non-current assets	5,613	5,953	6,482	5,610	12,671
Total current assets	13,825	14,406	8,940	15,034	7,049
Total current liabilities	(7,428)	(8,592)	(4,878)	(11,320)	(7,533)
Net current assets/(liabilities)	6,397	5,814	4,062	3,714	(484)
Total assets less current liabilities	12,010	11,767	10,544	9,324	12,187
Total non-current liabilities	(3,573)	(4,143)	(3,861)	(3,567)	(7,746)
Net assets	8,437	7,624	6,683	5,757	4,441



# SCHEDULE OF PRINCIPAL PROPERTY

Address	Gross site areas (sq.m.)	Gross floor areas (sq.m.)	Use	Category of the lease*	Percentage held by the Group
<b>PROPERTY HELD FOR INVESTMENT</b>					
<b>The People's Republic of China</b>					
<b>Pacific Century Place</b>					
No.2A Gong Ti Bei Lu, Chaoyang District, Beijing, the People's Republic of China					
	29,351				
Tower A		41,717	Office	Medium	100%
Tower B		20,104	Office	Medium	100%
Tower C		21,718	Residential	Long	100%
Tower D		10,946	Residential	Long	100%
Podium		75,431	Shopping centre	Medium	100%
Car park space		861 spaces	Car park	Medium	100%

- \* Lease term:  
 Long term: Lease not less than 50 years  
 Medium term: Lease less than 50 years but not less than 10 years

# INVESTOR RELATIONS

## LISTING

The Company's ordinary shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited and the stock code is 00432.

Any enquiries regarding the Company should be addressed to Investor Relations at the address provided on this page.

## BOARD OF DIRECTORS

### Executive Directors

Li Tzar Kai, Richard (*Chairman*)

Alexander Anthony Arena (*Deputy Chairman*)

Lee Chi Hong, Robert (*Chief Executive Officer*)

Lam Yu Yee

James Chan

Gan Kim See, Wendy

### Independent Non-Executive Directors

Cheung Kin Piu, Valiant

Tsang Link Carl, Brian

Prof Wong Yue Chim, Richard, SBS, JP

Dr Allan Zeman, GBS, JP

## COMPANY SECRETARY

Cheng Wan Seung, Ella

## REGISTERED OFFICE

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