



Pacific Century
Premium Developments
盈科大衍地產發展

STOCK CODE: 00432

ANNUAL REPORT 2014



*Embracing a
New Milestone*



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”, SEHK: 00008), PACIFIC CENTURY PREMIUM DEVELOPMENTS LIMITED (“PCPD” OR THE “GROUP”, SEHK: 00432) IS MAINLY ENGAGED IN DEVELOPING AND MANAGING PREMIUM PROPERTY AND INFRASTRUCTURE PROJECTS, AS WELL AS INVESTING IN PREMIUM-GRADE BUILDINGS, IN ASIA.

PROPERTY DEVELOPMENT AND INVESTMENT

In Hong Kong, PCPD completed Residence Bel-Air, its signature luxury residential project, at the end of 2008. This has since become one of the city's most prestigious developments. The Group also developed ONE Pacific Heights, a prime residential project situated at the western part of Hong Kong Island.

The Group is continuously exploring potential investment opportunities throughout Asia and around the world. In line with this strategy, it has drawn up long-term plans for the development of world-class all-season resorts in Hokkaido, Japan, and Phang-nga, southern Thailand. In 2013, the Group increased its presence in Asia by acquiring a site located in Sudirman CBD, a prime business district in Jakarta, Indonesia, where it plans to develop a Premium Grade A office building for investment purposes.

PROPERTY AND ASSET MANAGEMENT

Drawing on its considerable experience and expertise, the Group provides property and asset management services for various kinds of premises.

STATEMENT FROM THE CHAIRMAN

THE STRENGTHENED LIQUIDITY
ENABLES THE GROUP TO SEEK
ATTRACTIVE INVESTMENT
OPPORTUNITIES TO ENRICH ITS
PORTFOLIO IN A DIVERSE RANGE OF
PROPERTIES.

The U.S. Federal Reserve expects interest rates to rise in 2015, but the rate hike is unlikely to happen in the first quarter. In the meantime, however, Europe, Japan and China are taking easing measures to bolster economic growth. Against this background, the Group is cautiously optimistic about the global economy in the year ahead.

2014 was a significant year for PCPD in that it saw the completion of the sale of the Group's entire interest in Pacific Century Place, Beijing ("PCP Beijing") for an initial consideration of US\$928 million (approximately HK\$7,201 million). The proceeds from the sale, after loan repayment, will be used in part to fund the Group's existing projects in Indonesia, Japan and Thailand, which are progressing as scheduled.

The strengthened liquidity also enables the Group to seek attractive investment opportunities to enrich its portfolio in a diverse range of properties including residential, office, commercial, and hotel and resort. As a premium property developer, PCPD will examine opportunities in Asia and around the world in a bid to maximize the value of the Group and shareholders.

I would like to express my sincere gratitude to the management team and all staff members for their hard work and dedication to the Group throughout 2014.

A handwritten signature in black ink, consisting of a large, loopy 'R' followed by a smaller 'L' and a dot, all enclosed within a thin, hand-drawn oval.

Richard Li
Chairman

February 10, 2015

STATEMENT FROM THE CHIEF EXECUTIVE OFFICER

THE PROJECT IN JAKARTA, INDONESIA HAS SEEN ENCOURAGING PROGRESS IN THE LAST FEW MONTHS. PCPD IS STRIVING TO DEVELOP A GREEN BUILDING ON THE SITE BY MEETING THE HIGHEST INTERNATIONALLY-RECOGNISED STANDARD IN ENVIRONMENTAL PROTECTION AND SUSTAINABLE DEVELOPMENT.

The Group recorded a consolidated turnover of approximately HK\$315 million for the financial year ended December 31, 2014. This represented a decrease of approximately 53 per cent on its turnover of approximately HK\$674 million for 2013.

The Group's consolidated operating profit (excluding gain on disposal of subsidiaries) for 2014 amounted to approximately HK\$381 million, compared to approximately HK\$490 million for 2013.

Its consolidated net profit for 2014 totalled approximately HK\$1,491 million, compared to a profit of approximately HK\$77 million for 2013. The increase in net profit is mainly caused by the gain on disposal of Pacific Century Place, Beijing ("PCP Beijing") in 2014. Basic earnings per share were approximately 94.13 Hong Kong cents, compared to approximately 4.89 Hong Kong cents for 2013.

The Board of Directors has not recommended a final dividend for the year ended December 31, 2014.

With the completion of the sale of PCP Beijing in August 2014, the Group will focus on continued development of its

existing projects which will be funded in part from the sale proceeds, while identifying new investment opportunities given the Group's strengthened financial position.

The project in Jakarta, Indonesia has seen encouraging progress in the last few months. The foundation and the basement wall have been completed and the basement excavation work is now underway. PCPD is striving to develop a green building on the site by meeting the highest internationally-recognised standard in environmental protection and sustainable development. This is exemplified by the achievement of the LEED Platinum Grade Pre-certification awarded by US Green Building Council, the first of its type in Indonesia, in March 2014. PCPD is confident that the building will be completed and fully operational in 2017.

The Indonesian Government is intent on boosting the country's economy with increases in expenditure on infrastructure, education and health care. These new measures are expected to attract foreign investments and improve the overall business environment. We believe that our 40-storey Premium Grade A office building

being constructed at the Sudirman CBD of Jakarta will become a highly sought-after business location for multinational companies including international banking corporations.

PCPD will continue to examine opportunities in the region and farther away where the Group may further build up its portfolio and replicate its success in the development of large-scale property projects.



Robert Lee

Deputy Chairman and
Chief Executive Officer

February 10, 2015

KEY BUSINESS STRATEGIES

THE GROUP IS PRINCIPALLY ENGAGED IN DEVELOPING AND MANAGING PREMIUM PROPERTIES AS WELL AS INVESTING IN PREMIUM-GRADE BUILDINGS, LUXURY RESORTS AND HOTELS IN HONG KONG AND AROUND THE WORLD. PCPD AIMS TO CREATE AND ENHANCE VALUE FOR OUR SHAREHOLDERS THROUGH ENGAGING IN DEVELOPMENT PROJECTS, ACQUISITIONS AND JOINT VENTURES.

For this purpose, we embrace three key business strategies:

1. *Maintain long-term growth and profitability by developing and investing in premium-grade properties*

We are proactively seeking suitable premium development projects to generate favourable returns and sustain long-term growth for the Group.

2. *Enhance our opportunities in real estate markets worldwide by leveraging on our experience, expertise and brand established in developing and managing luxury residential, resort and hotel properties, and premium-grade buildings*

We intend to replicate our success and maximize the strengths of our brand through new projects. Approached from time to time by potential strategic partners, we are looking at opportunities to participate in mega projects with the benefit of economies of scale, and opportunities to acquire and upgrade existing properties for investment or sale, whether through joint ventures or by setting up real estate funds.

3. *Maintain a solid and healthy financial position*

We will continue to maintain a robust financial status with optimal gearing but healthy debt/equity ratio that will enable us to finance our existing projects and proceed with potential investments.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis of the audited consolidated financial results and operations relating to the business of Pacific Century Premium Developments Limited ("Company") and its subsidiaries (together with the Company, "Group") for the year ended December 31, 2014 is set out below.

BUSINESS REVIEW

PCPD experienced a significant year in 2014. It entered into an agreement to sell the Group's entire interests in Pacific Century Place, Beijing ("PCP Beijing") for an initial consideration of US\$928 million (approximately HK\$7,201 million) in April 2014. The transaction completed in August 2014 and the final consideration received was US\$939 million (equivalent to approximately HK\$7,281 million) after adjustments in accordance with the sale and purchase agreement. With the completion of the sale of PCP Beijing in August 2014, the Group will focus on the continued development of its existing projects which will be funded in part by the sales proceeds, while identifying new investment opportunities given the Group's strengthened financial position.

Property investment in Indonesia

The Group's investment in Indonesia is located at Sudirman CBD which is within the Golden Triangle of Jakarta, Indonesia. The site is being developed into a Premium Grade A landmark office building; and the foundation and the basement wall have been completed and the basement excavation work is now underway. A 40-storey Premium Grade A office building is scheduled to be completed and become operational in 2017.

Overseas property development projects

Detailed designs of the Hanazono all-season resort project in Hokkaido, Japan, are being worked on in accordance with the project schedule. The preparation of the project in Phang-nga, southern Thailand is continuing as planned.

All-season recreational activities in Japan

The Group's revenue from the all-season recreational activities in Niseko, Hokkaido, Japan, for the year ended December 31, 2014 amounted to approximately HK\$77 million as compared to approximately HK\$72 million in 2013.

Other businesses

Other businesses of the Group mainly include property management in Hong Kong and Japan and property investment and facilities management in Hong Kong. The revenue from these other businesses amounted to approximately HK\$89 million for the year ended December 31, 2014, as compared to approximately HK\$83 million in 2013.

FINANCIAL REVIEW

Review of results

The consolidated turnover of the continuing operations was approximately HK\$166 million for the year ended December 31, 2014, representing a decrease of approximately 62 per cent from approximately HK\$438 million in 2013. Such decrease was due to the fact that the revenue from the sale of the remaining properties of Villa Bel-Air has been fully recognised in 2013.

The consolidated gross profit from continuing operations for the year ended December 31, 2014 was approximately HK\$108 million, representing a decrease of approximately 32 per cent from approximately HK\$158 million in 2013. The decrease in consolidated gross profit was a result of the decrease in turnover.

The general and administrative expenses amounted to approximately HK\$376 million for the year ended December 31, 2014, which is at a similar level as 2013.

The consolidated operating loss from continuing operations for the year ended December 31, 2014 increased to approximately HK\$349 million, as compared to approximately HK\$232 million in 2013. Such increase in loss was mainly due to the provision for impairment of the project in Thailand and the reduction in property sales in 2014.

As a result of the above, the continuing operations recorded a consolidated net loss after taxation of approximately HK\$441 million for the year ended December 31, 2014, as compared to approximately HK\$457 million in 2013. Basic loss per share from continuing operations during the year under review was 27.86 Hong Kong cents, as compared to basic loss per share of 28.82 Hong Kong cents in 2013.

Current assets and liabilities

As at December 31, 2014, the Group held current assets of approximately HK\$4,368 million (December 31, 2013: HK\$2,564 million), mainly comprising cash and cash equivalents, sales proceeds held in stakeholders' accounts, restricted cash, and prepayments, deposits and other current assets. The increase in current assets is mainly due to the cash proceeds received from the disposal of PCP Beijing. Cash and cash equivalents amounted to approximately HK\$2,466 million as at December 31, 2014 (December 31, 2013: HK\$866 million). The amount of sales proceeds held in stakeholders' accounts has decreased by approximately 2 per cent from approximately HK\$541 million as at December 31, 2013 to approximately HK\$528 million as at December 31, 2014. The level of restricted cash has decreased to approximately HK\$1,022 million as at December 31, 2014 from approximately HK\$1,032 million as at December 31, 2013.

During the year, the Group redeemed the 2014 Convertible Note (as defined below), which led to the decrease of the Group's total current liabilities to approximately HK\$1,748 million as at December 31, 2014 from approximately HK\$3,906 million as at December 31, 2013.

Capital structure, liquidity and financial resources

As at December 31, 2014, the Group has no outstanding borrowings whereas the total borrowings as at December 31, 2013 amounted to HK\$4,311 million. The convertible note in the principal amount of HK\$2,420 million ("2014 Convertible Note") due on May 9, 2014 issued by PCPD Wealth Limited (an indirect wholly-owned subsidiary of the Company) ("CN Issuer") and held by PCCW-HKT Partners Limited (an indirect wholly-owned subsidiary of PCCW) ("CN Holder") was redeemed and the bank loan of HK\$1,500 million was repaid in 2014. As the 2014 Convertible Note was redeemed in full, the Group did not issue the 2019 Convertible Note on May 9, 2014 pursuant to the subscription agreement dated March 2, 2012 ("Subscription Agreement") between the CN Issuer, the Company and the CN Holder in relation to the 2019 Convertible Note (as disclosed in the Company's circular dated April 5, 2012); and the Subscription Agreement has lapsed and shall be of no effect.

On January 21, 2014, the Group entered into agreements to obtain loan facilities by which the lenders syndicate would make available term loan facilities which in the aggregate shall not exceed US\$200 million. No drawdown has yet been made by the Group as at December 31, 2014.

As at December 31, 2014, the net debt-to-equity ratio was not applicable after all the borrowings were redeemed or repaid (as at December 31, 2013: 11 per cent). Net debt is calculated by deducting the aggregate of cash and cash equivalents and short-term deposits from the principal amount of borrowings.

Cash and bank deposits were held mainly in US dollars and Hong Kong dollars. The Group has foreign operations, and certain of its net assets are exposed to the risk of foreign currency exchange rate fluctuations. As at December 31, 2014, the assets of the Group in Indonesia, Thailand and Japan represented approximately 31 per cent, 8 per cent and 7 per cent of the Group's total assets respectively. The Group's currency exposure with respect to these operations is subject to fluctuations in the exchange rates of Indonesian Rupiah, Thai Baht and Japanese Yen.

Cash used in operating activities (continuing operations) in 2014 was approximately HK\$249 million, as compared to approximately HK\$89 million in 2013.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Income tax

The Group's income tax for continuing operations for the year ended December 31, 2014 were approximately HK\$21 million, as compared to approximately HK\$18 million in 2013.

Security on assets

As at December 31, 2014, certain assets of the Group and equity interests in companies within the Group with an aggregate carrying value of approximately HK\$2,076 million (December 31, 2013: HK\$6,672 million) and performance guarantee of approximately HK\$166 million were mortgaged and pledged to banks as security for the loan facilities of the Group.

Discontinued operation

The Group's discontinued operation represented the operations of PCP Beijing. The operating profit of the discontinued operation for the year ended December 31, 2014 increased to approximately HK\$730 million, as compared to approximately HK\$722 million in 2013. The discontinued operation recorded a net profit after taxation of approximately HK\$1,932 million for the year ended December 31, 2014, which includes the gain on disposal of subsidiaries of approximately HK\$1,390 million, as compared to approximately HK\$534 million in 2013. Basic earnings per share for the discontinued operation during the year was 121.99 Hong Kong cents, as compared to 33.71 Hong Kong cents in 2013.

EMPLOYEES AND REMUNERATION POLICIES

As at December 31, 2014, the Group employed a total number of 393 staff in Hong Kong and overseas. The remuneration policies of the Group are in line with prevailing industry practices. Bonuses are paid on a discretionary basis taking into account factors such as performance of individual employees and the Group's performance as a whole. The Group provides comprehensive employee benefits, including medical insurance, a choice of provident fund or mandatory provident fund as well as training programs. The Group is also a participating member of the PCCW employee share incentive award schemes.

The share option scheme that the Company adopted on March 17, 2003 ("2003 Share Option Scheme") was terminated; it was replaced by a new share option scheme ("New Share Option Scheme") which was adopted at the Company's annual general meeting held on May 13, 2005. The New Share Option Scheme became effective on May 23, 2005, following its approval by PCCW's shareholders. The New Share Option Scheme is valid and effective for a period of 10 years commencing on May 23, 2005 while the outstanding options granted under the 2003 Share Option Scheme (before the adoption of the New Share Option Scheme) would continue to be valid with the terms of the 2003 Share Option Scheme being applicable to them until their expiry.

The New Share Option Scheme will expire on May 22, 2015 and an ordinary resolution will be proposed at the forthcoming annual general meeting to approve the termination of the New Share Option Scheme and the adoption of a new scheme. Following the termination of the New Share Option Scheme, no further share option will be granted under such scheme, and the provisions of the New Share Option Scheme will remain in full force and effect in all other aspects.

DIVIDENDS AND DISTRIBUTION

The Board did not recommend the payment of a final dividend to shareholders nor a final distribution to bonus convertible noteholders for the year ended December 31, 2014 (2013: Nil).

The Board did not declare an interim dividend to shareholders nor an interim distribution to bonus convertible noteholders for the year ended December 31, 2014 (2013: Nil).

CLOSURE OF REGISTER OF MEMBERS AND CLOSURE OF REGISTER OF NOTEHOLDERS

The Company's register of members will be closed from May 5, 2015 to May 6, 2015, both days inclusive, during which period no transfer of shares will be effected. In order to be entitled to attend and vote at 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 not later than 4:30 p.m. on May 4, 2015.

The Company's register of noteholders of bonus convertible notes will be closed from May 5, 2015 to May 6, 2015, both days inclusive, during which period no transfer of bonus convertible notes will be effected. In order to be entitled to attend and vote at forthcoming annual general meeting of the Company, all transfers, accompanied by the relevant note certificates, should be lodged with the bonus convertible note 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 not later than 4:30 p.m. on May 4, 2015.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended December 31, 2014, there was no purchase, sale or redemption by the Company or any of its subsidiaries of the listed securities of the Company.

OUTLOOK

The global economy, especially the U.S., has shown noticeable improvements over the past year, while some major economies, including the Eurozone and China, are struggling to avoid a decline in GDP growth. A sharp fall in crude oil prices has also increased market uncertainty. In general, the Group remains cautiously optimistic about the global property market given the continuing low interest rate environment.

2014 was a significant year for PCPD in that a major asset of the Group, PCP Beijing, was sold for an initial consideration of US\$928 million. The proceeds from the sale, after loan repayment and the full redemption of 2014 Convertible Note, have greatly enhanced the Group's financial position and flexibility when it comes to examining future investment opportunities.

The Group is currently adopting a two-pronged approach in its business development. First, the Group will continue to develop its existing projects. The hotel and resort projects in Japan and Thailand are proceeding as scheduled. The Jakarta project is also progressing well, with its foundation and basement wall completed and the basement excavation work well underway. The Group is confident that the 40-storey Premium Grade A office building will be completed on schedule in 2017.

Another business development focus is to identify attractive opportunities for development and investment in residential, office, commercial, hotel and resort projects in order to enrich the Group's portfolio. To this end, the Group will examine opportunities in Asia and beyond.

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

LI Tzar Kai, Richard

Chairman

Mr Li, aged 48, is an Executive Director and the Chairman of Pacific Century Premium Developments Limited (“PCPD”), the Chairman of PCPD’s Executive Committee, a member of PCPD’s Remuneration Committee and Nomination Committee of PCPD Board. He became a director of PCPD in May 2004. He also holds positions in the following companies:

- (1) Chairman and Executive Director of PCCW Limited (“PCCW”);
- (2) Chairman of PCCW’s Executive Committee;
- (3) a member of PCCW’s Nomination Committee of the PCCW board;
- (4) Executive Chairman and Executive Director of HKT Limited (“HKT”) and HKT Management Limited, the trustee-manager of the HKT Trust;
- (5) Chairman of HKT’s Executive Committee;
- (6) a member of HKT’s Nomination Committee of the HKT board;

- (7) Chairman and Chief Executive of the Pacific Century Group; and
- (8) Chairman and Executive Director of Singapore-based Pacific Century Regional Developments Limited (“PCRD”), and the Chairman of PCRD’s Executive Committee.

Mr Li is a Non-Executive Director of The Bank of East Asia, Limited (“BEA”). He is also 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. Mr Li was awarded the Lifetime Achievement Award by the Cable & Satellite Broadcasting Association of Asia in November 2011.

LEE Chi Hong, Robert

Deputy Chairman and Chief Executive Officer

Mr Lee, aged 63, is an Executive Director, the Deputy Chairman, the Chief Executive Officer of PCPD and a member of PCPD’s Executive Committee. He became a director of PCPD in May 2004. He is also an Executive Director of PCCW and a member of PCCW’s Executive Committee and is a Director of certain PCCW subsidiaries.

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, Mr Lee was a senior partner at Deacons in Hong Kong, where he specialized 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

James CHAN

Pritchard Englefield & Tobin (now Thomas Eggar incorporating Pritchard Englefield). He was enrolled as a solicitor in the United Kingdom in 1979 and admitted as a solicitor in Hong Kong in 1980. He became a Notary Public in Hong Kong in 1991.

Mr Lee had 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 is a member of the International Council of the Louvre as well as an Ambassador for the Louvre in China.

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

Mr Chan, aged 61, is an Executive Director, the Project Director of PCPD and a member of PCPD's Executive Committee. He became a director of PCPD in August 2005. Mr Chan is responsible for managing various property projects of PCPD and its subsidiaries. He was responsible for the project execution of the Cyberport project and has overall responsibility for all aspects of the construction works. Mr Chan has become an Independent Non-Executive Director of Beijing Properties (Holdings) Limited since June 2011 and a Non-Executive Director of Viva China Holdings Limited since June 2013.

Prior to joining PCCW in October 2002, Mr Chan was a practising architect and had worked for a major developer in Hong Kong, with comprehensive experience in design, planning and land matters, design development and construction management of major investment properties, which included a wide range of industrial and

warehousing, commercial, retail and residential developments in Hong Kong and overseas. Mr Chan possesses a wide spectrum of experience in the real estate industry and has been active in the real estate business for more than 36 years.

Mr Chan holds a Bachelor of Arts in Architectural Studies degree from The University of Hong Kong ("HKU"), a Bachelor of Architecture degree from University of Dundee in Scotland and an Executive Master of Business Administration degree from Tsinghua University. He is qualified as the Authorised 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 Australian Institute of Architects.

BOARD OF DIRECTORS

GAN Kim See, Wendy

Ms Gan, aged 49, 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, leasing and marketing of PCPD's property assets.

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 26 years' experience in property development and management and expertise in sales and marketing of projects in Hong Kong and overseas.

Ms Gan's 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 Hong Kong Institute of Surveyors' top awards in property marketing.

Ms Gan holds a Bachelor of Arts degree with First Class Honours from HKU. She also holds 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 and is an alumna of the Harvard Graduate School of Design. Ms Gan received a Diploma in Surveying from the College of Estate Management, United Kingdom and is a member of the Royal Institution of Chartered Surveyors, the Hong Kong Institute of Surveyors and the Real Estate Developers Association of Hong Kong. Ms Gan is also an individual member (Appraisers Group) of China Institute of Real Estate Appraisers and Agents and received the "China Outstanding Woman" award in 2011. Ms Gan is currently a member of the Court of HKU. She sits on the Management Board of HKU School of Professional and Continuing Education. She is an Honorary Director of HKU Foundation for Educational Development and Research and a Director of HKS Education Fund Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHEUNG Kin Piu, Valiant

Mr Cheung, aged 69, is an Independent Non-Executive Director of PCPD, the Chairman of PCPD's Remuneration Committee of the Board and a member of PCPD's Audit Committee and Nomination Committee of the Board. 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 People's Republic of China ("PRC"). Mr Cheung 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.

Prof WONG Yue Chim, Richard, SBS, JP

Mr Cheung 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 the following listed companies in Hong Kong:

- (1) Dah Chong Hong Holdings Limited;
- (2) BEA; and
- (3) Vitasoy International Holdings Limited.

In addition, Mr Cheung is an Independent Non-Executive Director of The Bank of East Asia (China) Limited, a non-listed company and a wholly-owned subsidiary of BEA. He is also the Deputy Chairman of SAHK (a non-government organisation).

Prof Wong, aged 62, is an Independent Non-Executive Director of PCPD, the Chairman of PCPD's Audit Committee and a member of PCPD's Remuneration Committee and Nomination Committee of the Board. He became a director of PCPD in July 2004.

Prof Wong is a Professor of Economics at HKU. 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, Prof Wong was appointed a 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 the following listed companies in Hong Kong:

- (1) CK Life Sciences Int'l., (Holdings) Inc.;
- (2) Great Eagle Holdings Limited;
- (3) Orient Overseas (International) Limited; and
- (4) Sun Hung Kai Properties Limited.

Prof Wong is also an Independent Non-Executive Director of the following companies:

- (1) The Link Management Limited (the manager of The Link Real Estate Investment Trust); and
- (2) Industrial and Commercial Bank of China (Asia) Limited (withdrawal of listing of shares on The Stock Exchange of Hong Kong Limited since 21 December 2010).

BOARD OF DIRECTORS

Dr Allan ZEMAN, GBM, GBS, JP

Dr Zeman, aged 66, is an Independent Non-Executive Director of PCPD, the Chairman of PCPD's Nomination Committee of the Board and a member of PCPD's Audit Committee of the Board. He became a director of PCPD in June 2004.

Dr Zeman is the Chairman of Lan Kwai Fong Group, a major property owner and developer in Hong Kong's Lan Kwai Fong, one of Hong Kong's popular tourist attractions and entertainment districts. Dr Zeman is also an Independent Non-Executive Director of Sino Land, Tsim Sha Tsui Properties Limited, Global Brands Group Holding Limited and a board member of The "Star" Ferry Company, Limited. Besides all the board appointments in Hong Kong, Dr Zeman is an Independent Non-Executive Director and the Vice Chairman of Wynn Macau, Limited, a prominent gaming company in Macau. He was formerly an Independent Non-Executive Director of The Link Management Limited (the manager of The Link Real Estate Investment Trust) from September 2004 to July 2011 and a Non-Executive Director of Wynn Resorts, Limited from October 2002 to December 2012.

Having lived in Hong Kong for over 40 years, Dr Zeman has been very involved in Government services as well as community activities. Besides, he was the Chairman of Hong Kong Ocean Park from July 2003 to June 2014, Dr Zeman also serves as a member of the Board of West Kowloon Cultural District Authority, and is the Chairman of its Performing Arts Committee. He is also the appointed member of the Economic Development Commission of Hong Kong, a member of the General Committee of the Hong Kong General Chamber of Commerce, a member of the Board of Governors of The Canadian Chamber of Commerce in Hong Kong and a member of the Asian Advisory Board of the Richard Ivey School of Business, The University of Western Ontario.

Dr Zeman is a holder of Honorary Doctorate of Laws Degree from The University of Western Ontario, Canada. He is also a holder of Honorary Doctorate of Business Administration from City University of Hong Kong as well as The Hong Kong University of Science and Technology.

CORPORATE GOVERNANCE REPORT

Pacific Century Premium Developments Limited (“PCPD” or “Company”) and its subsidiaries (“Group”) have made continued efforts to incorporate the key elements of sound corporate governance into its management structure and internal procedures. The Group is committed to high standards of ethics and integrity in all aspects of business and to ensuring that its affairs are conducted in accordance with applicable laws and regulations and for the benefits and in the interests of shareholders of the Company.

CORPORATE GOVERNANCE CODE

The Company has applied the principles and complied with all applicable code provisions of the Corporate Governance Code (“CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) during the year ended December 31, 2014.

MODEL CODE SET OUT IN APPENDIX 10 TO THE LISTING RULES

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

The Company has made specific enquiries with all the directors of the Company and they confirmed that they had complied with the requirements under the PCPD Code for the year ended December 31, 2014.

BOARD OF DIRECTORS

As at the date of this report, the board of directors of the Company (“Board”) comprises four executive directors and three independent non-executive directors. The biographies of all the directors as of the date of this report are set out on pages 14 to 18 of this annual report.

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

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

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS – CONTINUED

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

The executive committee of the Board (“Executive Committee”) is, under the leadership of the Chairman of the Board, responsible for considering in detail the policy decisions of the Board and implementing such decisions.

Mr Li Tzar Kai, Richard is the Chairman of the Board and Mr Lee Chi Hong, Robert is the Chief Executive Officer of the Company. The role of the Chairman is separated from that of the Chief Executive Officer. The Chairman is responsible for ensuring that the Board functions effectively, for providing leadership for the Board in setting goals and objectives for 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 effective implementation of the Group’s strategies. Mr Lee Chi Hong, Robert is also the Deputy Chairman of the Company.

All of the directors have full access to all the relevant information and have been furnished with relevant information in a timely manner, including monthly updates from the management, reports from each committee of the Board and briefings on significant legal, regulatory or accounting issues affecting the Group. Directors are also entitled to seek independent professional advice with costs to be borne by the Company.

All directors have confirmed that they have given sufficient time and attention to the Company’s affairs. The Company has requested that each director shall disclose to the Company at the time of his/her appointment the number and nature of offices held in public companies or organisations and other significant commitments and with an indication of the time involved and disclose in a timely manner any changes thereto.

The Board has introduced a structured process to evaluate the performance of all the directors on an annual basis including a self-evaluation questionnaire which has been completed by each director and was presented to the audit committee of the Board (“Audit Committee”) and then to the Board for discussion for the purpose of evaluating each director’s performance of his/her responsibilities and his/her time commitment to the Company’s affairs in accordance with the relevant requirements of the CG Code, and to identify areas for improvement. Through this process, it was noted that directors were generally satisfied with their performance and their time commitment in discharging their duties as directors of the Company for the year ended December 31, 2014.

BOARD OF DIRECTORS – CONTINUED

The directors acknowledge their responsibilities 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 cashflows of the Group and which are prepared in accordance with the Hong Kong Financial Reporting Standards, the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and the Listing Rules. In preparing the financial statements for the year ended December 31, 2014, the directors and the Chief Financial Officer have selected suitable accounting policies and applied them consistently, made judgments 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 and the Chief Financial Officer are responsible for keeping proper accounting records which would reflect 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 relating to their reporting responsibilities on the financial statements of the Company is set out in the Independent Auditor's Report on pages 54 to 55.

One-third of the members of the Board are independent non-executive directors and hence with the requirement under Rule 3.10(A) of the Listing Rules is complied with. In addition, Mr Cheung Kin Piu, Valiant, one of the independent non-executive directors, is a qualified accountant with substantial experience in accounting and financial matters; therefore, the requirement under Rule 3.10 of the Listing Rules is complied with. The Company has received from each of its independent non-executive directors the written confirmation confirming his independence to the Company and the Company considers that they 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 the annual general meeting once every three years in accordance with the Bye-laws of the Company and in compliance with the CG Code. The Company has issued formal letters of appointment to its directors setting out the key terms of their appointments as required under the Listing Rules.

Independent non-executive directors are identified in all of the corporate communications in which the names of the directors are disclosed. An updated list of the Company's directors identifying the independent non-executive directors and the role and functions of the directors is maintained on the relevant websites of the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange").

EXECUTIVE COMMITTEE

The Executive Committee operates as a general management committee with the 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 is responsible with determining strategies for the group, reviewing trading performance, ensuring adequate funding, examining major investment opportunities and monitoring management performance. The authority and duties of the Executive Committee are set out in writing in its terms of reference.

CORPORATE GOVERNANCE REPORT

EXECUTIVE COMMITTEE – CONTINUED

Current members of the Executive Committee are:

1. Li Tzar Kai, Richard (Chairman)
2. Lee Chi Hong, Robert
3. James Chan

REMUNERATION COMMITTEE

The remuneration committee of the Board (“Remuneration Committee”) is responsible for ensuring that formal and transparent procedures are in place for developing the remuneration policy of the Company, for overseeing the remuneration packages of individual executive director and senior management, and for providing effective oversight and administration of the share option scheme of the Company. The authorities and duties of the Remuneration Committee are set out in writing in its terms of reference which specify, among other things, that it must comprise at least three members, and the majority of whom shall be independent non-executive directors; and the chairman of the Remuneration Committee must be an independent non-executive director of the Company. The terms of reference are posted on the relevant websites of the Company and the Stock Exchange.

The Company has adopted the model by which determination of the remuneration packages of individual executive director and senior management is delegated to the Remuneration Committee. The Remuneration Committee is provided with sufficient resources to perform its duties and can seek advice from remuneration consultants or other independent external professional advisers if necessary.

The Remuneration Committee is chaired by an independent non-executive director. Current members of the Remuneration Committee are:

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

The majority of the members of the Remuneration Committee are independent non-executive directors.

In the year ended December 31, 2014, one Remuneration Committee meeting was held. The attendance record of individual directors at the committee meeting is set out in the table on page 28.

REMUNERATION COMMITTEE – CONTINUED

The following is a summary of the work performed by the Remuneration Committee in 2014:

- A. reviewed the remuneration of certain executive directors for 2014 and approved 2013 incentive bonus payment to all the executive directors;
- B. reviewed and approved special bonus payment to an executive director;
- C. reviewed the fees and remuneration of the non-executive directors for 2014 and made recommendations to the Board for such to be approved, if thought fit; and
- D. reviewed the terms of reference of the Remuneration Committee and concluded that no revision was required.

Details of the remuneration of each director are set out in the financial statements on pages 87 to 88.

NOMINATION COMMITTEE

The nomination committee of the Board (“Nomination Committee”) is responsible for ensuring that a set of fair and transparent procedures is in place for the appointment and re-appointment of directors to the Board. The authorities and duties of the Nomination Committee are set out in writing in its terms of reference which specify, among other things, that it must comprise at least three members, the majority of whom shall be independent non-executive directors and the chairman of the Nomination Committee can be either the chairman of the Board or an independent non-executive director of the Company. The terms of reference are posted on the relevant websites of the Company and the Stock Exchange.

The Company has formal procedures for the appointment of a new director to the Board, and the appointment process is fair and transparent. The Nomination Committee reviews the structure, size and composition of the Board, identifies suitably qualified candidates to become Board members and makes recommendations to the Board on the selection of candidates nominated for directorships and on succession planning for directors. During the process, the Nomination Committee makes the selection of candidate based on merits and with due regard to the benefits of diversity he/she can bring to the Board.

The Board adopted a board diversity policy (“Board Diversity Policy”) on February 25, 2013 with the primary objective of enhancing the effectiveness of the Board and the corporate governance standard of the Group. The Company recognizes the importance of having a diverse team of board members, which is an essential element in maintaining a competitive advantage. The Nomination Committee has been delegated the authority to review and assess the diversity of the Board by way of considering a number of factors including but not limited to, gender, age, cultural and educational background, and professional experience with an objective of maintaining an appropriate mix and balance of skills, experience and diversity of perspectives on the Board.

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE – CONTINUED

The Nomination Committee will review and assess the Board Diversity Policy at least annually and make recommendation to the Board regarding appointment and re-appointment of directors. The Nomination Committee will give consideration to the Board Diversity Policy when identifying and selecting suitably qualified candidates.

The Nomination Committee is chaired by an independent non-executive director. 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

The majority of the members of the Nomination Committee are independent non-executive directors.

In the year ended December 31, 2014, one Nomination Committee meeting was held. The attendance record of individual directors at the committee meeting is set out in the table on page 28.

The following is a summary of the work performed by the Nomination Committee in 2014:

- A. reviewed and assessment of the independence of all independent non-executive directors and advised the Board as to which of the directors were due to retire pursuant to the applicable laws of Bermuda, the Bye-laws of the Company and the CG Code and recommended that they be subject to retirement and re-election at the 2014 annual general meeting;
- B. annual review of the structure, size and composition (including the skills, knowledge and experience) of the Board based on the Board Diversity Policy according to the Listing Rules; and with a recommendation to the Board for approval; and
- C. reviewed the terms of reference of the Nomination Committee and concluded that no revision was required.

At its meeting on February 10, 2015, the Nomination Committee reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board and formed the view that the Board has a balance of skills, knowledge and experience which was appropriate for the business of the Company for the year ended December 31, 2014, and had made recommendation to the Board for approval of the same. In performing its duties, the Nomination Committee can seek advice from outside legal counsels or other independent professionals at the Company's expenses if necessary.

AUDIT COMMITTEE

The Audit Committee is responsible for ensuring (i) the objectivity and credibility of the Group's financial reporting; (ii) that the directors have exercised due care, diligence and skills prescribed by law when presenting results to the shareholders; (iii) that an effective system of internal controls is in place; (iv) that good corporate governance standards and practices are maintained by the Group; and (v) the Company's general compliance with regulatory obligations. The authorities and duties of the Audit Committee are set out in writing in its terms of reference which are posted on the relevant websites of the Company and the Stock Exchange.

The major duties of the Audit Committee include (i) making recommendation of appointment of the external auditor, compensation and supervision of the external auditor and to ensure the independence of the external auditor by reviewing the fees for audit and non-audit services provided to the Group by the external auditor in accordance with its adopted procedures; and (ii) the maintaining of good corporate governance standards and practices and the whistle-blowing policy of the Group.

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.

Current members of the Audit Committee are:

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

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

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. In the year ended December 31, 2014, two Audit Committee meetings were held. The attendance record of individual directors at the committee meetings is set out in the table on page 28.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE – CONTINUED

The following is a summary of the work performed by the Audit Committee in 2014:

- A. reviewed the financial statements of the Company for the year ended December 31, 2013 and the related annual results announcement and auditor's report; and made recommendations to the Board that the same be approved;
- B. reviewed the report of the external auditor and made recommendations to the Board for their re-appointment at the 2014 annual general meeting;
- C. reviewed the financial statements of the Company for the six months ended June 30, 2014 and the related interim results announcement and made recommendations to the Board that the same be approved;
- D. reviewed external auditor's reports to the Audit Committee for the year ended December 31, 2013 and the six months ended June 30, 2014 and their terms of engagement, communications plan and audit plan for the Group for the financial year ended December 31, 2014;
- E. reviewed various internal audit reports;
- F. reviewed the terms of reference of the Audit Committee and concluded that no revision was required;
- G. reviewed the corporate governance report of the Company for the year ended December 31, 2013;
- H. the Chairman of the Audit Committee had delegated the authority to any one of the other Audit Committee members may approve the pre-approve audit and non-audit services and in his absence, in accordance with the terms of reference;
- I. reviewed the fees for audit and non-audit services provided by the external auditor;
- J. reviewed the Group's continuing connected transactions and external auditor's report thereon; and
- K. met with the external auditor in the absence of management.

In addition, the Audit Committee reviewed the financial statements for the year ended December 31, 2014 and the related annual results announcement and auditor's report and the corporate governance report, and made recommendation to the Board that the same be approved.

EXTERNAL AUDITOR

The external auditor of the Group is PricewaterhouseCoopers. During the year ended December 31, 2014, the total fees in respect of audit and non-audit services provided by PricewaterhouseCoopers (which for this purpose included 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, either nationally or internationally) amounted to approximately HK\$8.5 million.

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

Nature of service	Fees paid (HK\$ million)
Non-statutory review services	1.5
Others	2.6
	<hr/>
Total non-audit services fees	4.1
	<hr/> <hr/>

INTERNAL AUDIT

The internal audit unit of the Group 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 business and service units of the Group. Special reviews are also performed at management's request. 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 the standards by which 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's information and property, personal data privacy, prevention of bribery, conflicts of interests, competition, health and safety at work and environment. The full version of the Corporate Responsibility Policy can be found on the website of the Company.

CORPORATE GOVERNANCE REPORT

INTERNAL AUDIT – CONTINUED

During 2014, the internal audit unit conducted selective reviews of the effectiveness of the Group's system of internal controls over financial, operational, compliance controls and risk management functions with emphasis on information technology and procurement. Additionally, major heads of business and corporate functions were required to undertake a control self-assessment of their key controls. These results were assessed by the internal audit unit and reported to the Audit Committee, which then reviewed and reported the same to the Board. The Audit Committee and the Board were not aware of any areas of concern that would have an adverse impact on the Company's financial position or results of operations and considered the internal control system to be generally effective and adequate including the adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting and financial reporting function.

ATTENDANCE AT MEETINGS

All directors actively participate in the Company's business. The attendance records of current directors for the Board meetings and meetings of the Board committees during the year ended December 31, 2014 are set out below:

Directors	Meetings attended/held in 2014					
	Board Meeting	Audit Committee Meeting	Nomination Committee Meeting	Remuneration Committee Meeting	Annual General Meeting	Special General Meeting
Executive directors						
Li Tzar Kai, Richard	5/5	N/A	1/1	1/1	1/1	0/1
Lee Chi Hong, Robert	5/5	N/A	N/A	N/A	1/1	1/1
Lam Yu Yee (resigned with effect from 25 November 2014)	4/5	N/A	N/A	N/A	1/1	1/1
James Chan	5/5	N/A	N/A	N/A	1/1	1/1
Gan Kim See, Wendy	5/5	N/A	N/A	N/A	1/1	1/1
Independent non-executive directors						
Cheung Kin Piu, Valiant	5/5	1/2	1/1	1/1	1/1	1/1
Prof Wong Yue Chim, Richard	5/5	2/2	1/1	1/1	1/1	1/1
Dr Allan Zeman	5/5	2/2	1/1	N/A	0/1	0/1

TRAINING AND SUPPORT FOR DIRECTORS

During the year, directors received regular updates and presentations on the developments of the Group's business and also important amendments to the Listing Rules and other applicable regulatory requirements. These updates aim at enhancing directors' knowledge and skills; and assisting them to comply with good corporate governance practices. The current directors of the Company, namely, Li Tzar Kai, Richard, Lee Chi Hong, Robert, James Chan, Gan Kim See, Wendy, Cheung Kin Piu, Valiant, Prof Wong Yue Chim, Richard and Dr Allan Zeman, had attended training sessions organized by the Company or its holding company or other professional parties and had provided their training records to the Company Secretary.

COMPANY SECRETARY

On November 25, 2014, Ms Cheng Wan Seung, Ella has resigned and Mr Tsang Sai Chung has been appointed as the Company Secretary of the Company.

As at December 31, 2014, the Company Secretary of the Company is Mr Tsang Sai Chung who had taken no less than 15 hours of relevant professional training.

INVESTOR RELATIONS

The Company encourages two-way communication with both institutional and private investors. Information on the activities of the Company is provided in the interim reports and annual reports as well as on the relevant websites of the Company and the Stock Exchange. There are regular dialogues between institutional investors and the Company. Enquiries from individuals on matters relating to their shareholdings and the business of the Company are welcomed and they are dealt with in an informative and timely manner. Relevant contact information is provided on page 144 of this annual report.

SHAREHOLDERS' RIGHTS

1. Procedures by which shareholders can convene a special general meeting

Pursuant to the Bye-laws of the Company, the Board shall, on the requisition in writing of the shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company, proceed to call a special general meeting for the transaction of any business specified in such requisition ("Requisition"). The Requisition must state the purposes of the general meeting, be signed by the shareholder(s) concerned and may consist of several documents in like form, each signed by one or more of those shareholders. A special general meeting must be held within two months after deposit of the Requisition.

If within twenty-one days of such deposit the Board fails to proceed to convene such special general meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves do so in accordance with the provisions of Section 74(3) of the Companies Act 1981 of Bermuda ("Act").

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS – CONTINUED

2. *Procedures by which enquiries may be put to the Board*

Shareholders may, at any time, direct enquiries to the Board. Such enquiries can be addressed to the Company Secretary in writing by mail to the Company's principal place of business in Hong Kong at 8th Floor, Cyberport 2, 100 Cyberport Road, Hong Kong ("Hong Kong Principal Office").

3. *Procedures for putting forward proposals at general meetings*

To put forward a proposal at a shareholders' meeting, shareholders are requested to follow the requirements and procedures as set out in the Bye-laws of the Company and the Act.

Pursuant to the Act, shareholder(s) of the Company holding (i) not less than one-twentieth of the total voting rights of all the shareholders having the right to vote at the general meeting; or (ii) not less than 100 shareholders, can submit a written request stating the resolution intended to be moved at the annual general meeting; or a statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at a particular general meeting.

The written request/statements must be signed by the shareholder(s) concerned and deposited at the Company's registered office in Bermuda at Clarendon House, 2 Church Street, Hamilton, HM11 Bermuda ("Registered Office") and its Hong Kong Principal Office, for the attention of the Company Secretary, not less than six weeks before the annual general meeting in the case of a requisition requiring notice of a resolution and not less than one week before the general meeting in the case of any other requisition.

If the written request is in order, the Company Secretary will take necessary actions pursuant to the Act.

SHAREHOLDERS' RIGHTS – CONTINUED

4. *Procedures for shareholders to propose a person for election as a Director*

Pursuant to the Bye-laws of the Company, if a shareholder, who is duly qualified to attend and vote at the general meeting convened to deal with appointment or election of director(s), wishes to propose a person (other than a retiring director and the shareholder himself/herself) for election as a director at that general meeting, such shareholder can deposit a notice in writing of the intention to propose that person for election as a director and a notice in writing by that person of his willingness to be elected at the Company's Registered Office or the Hong Kong Principal Office at least seven days before the date of the general meeting. The period for lodging such notice will commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and no later than seven days prior to the date of such meeting.

If a shareholder wishes to nominate a person to stand for election as a director, the following documents must be validly served on the Company Secretary, namely (i) notice of intention to propose a resolution to elect a person as a director ("Nominated Candidate") at the general meeting; (ii) notice in writing executed by the Nominated Candidate of his/her willingness to be elected; and (iii) the information as required to be disclosed under Rule 13.51(2) of the Listing Rules and such other information as required by the Listing Rules and the Bye-laws of the Company from time to time.

STAFF TRAINING AND DEVELOPMENT

In 2014, the Group continued to assist employees to enhance and improve their performance standards. The Group had provided in-house training and sponsored employees to attend courses organized by third parties, with the total number of training hours exceeding 1,550 hours. The training courses, either organized internally or attended by employees at external organizations, were selected to assist employees to comply with the policies and standards of the Group and improve their career prospects within the Group. Such courses included customer service enhancement programs, anti-corruption seminars jointly organized with the Independent Commission Against Corruption, language proficiency courses, technical refresher training, occupational health and safety training, and corporate and regulatory related training.

COMMUNITY

The Group participated in and sponsored various charitable or community projects last year. The Group has been a sponsor of the CyberRun for Rehab since the inception of the event in 2004; the event raises funds for the Hong Kong Society for Rehabilitation.

CORPORATE GOVERNANCE REPORT

ENVIRONMENT

The Group is committed to sustainability and seeks to promote environmentally-friendly measures in its operations. Apart from adopting green building exemplary performance strategies in its development projects, the Group has joined the Hong Kong Green Building Council as institutional member to become part of the driving forces in advocating sustainable built environment in Hong Kong. This further demonstrates the Group's commitment to corporate sustainability and responsibility.

On behalf of the Board

TSANG Sai Chung

Company Secretary

Hong Kong, February 10, 2015

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REPORT OF THE DIRECTORS

The board of directors of Pacific Century Premium Developments Limited (“Company”) (“Board”) presented its annual report together with the audited consolidated financial statements of the Company and its subsidiaries (“Group”) for the year ended December 31, 2014.

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 Asia.

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, 2014 are set out in the accompanying consolidated statement of comprehensive income on pages 56 to 57.

For the year ended December 31, 2014, the Board did not declare any interim dividend to shareholders nor any interim distribution to bonus convertible noteholders (2013: Nil). The Board did not recommend the payment of a final dividend to shareholders nor a final distribution to bonus convertible noteholders for the year ended December 31, 2014 (2013: Nil).

CONVERTIBLE SECURITIES

Bonus Convertible Notes

As a result of the issue of bonus convertible notes in the aggregate amount of HK\$592,572,154.40 convertible into 1,185,144,308 shares at a conversion price of HK\$0.50 per share (after adjustment made as a consequence of a share consolidation of the Company which became effective on June 25, 2012) in 2012, up to December 31, 2014, bonus convertible notes in the aggregate amount of HK\$18,800.00 (December 31, 2013: HK\$18,800.00) were converted into 37,600 shares (December 31, 2013: 37,600 shares) of the Company at the conversion price of HK\$0.50 per share.

2014 Convertible Note

Upon maturity of the 2014 convertible note in the principal amount of HK\$2,420 million on May 9, 2014, PCPD Wealth Limited (“CN Issuer”), a wholly-owned subsidiary of the Company, being the issuer of the 2014 convertible note, redeemed it in full in cash at 120 per cent of its principal amount then outstanding for HK\$2,904 million.

Upon redemption of the 2014 convertible note in full, it has been cancelled.

Lapse of the Subscription Agreement for the 2019 Convertible Note

Subsequent to the redemption of the 2014 convertible note in full, the CN Issuer has not issued and PCCW-HKT Partners Limited (“CN Holder”), a wholly-owned subsidiary of PCCW Limited, being the holder of the 2014 convertible note, has not subscribed for the 2019 convertible note. Accordingly, the subscription agreement dated March 2, 2012 entered into between the CN Issuer, the Company and the CN Holder in relation to the 2019 convertible note (as disclosed in the Company’s circular dated April 5, 2012) has lapsed pursuant to its terms and shall be of no further effect.

Share Options

In October 2014, 5,000,000 shares of the Company were issued and allotted as a result of an exercise of share options granted under the 2003 share option scheme by a director of a subsidiary of the Company at an exercise price of HK\$2.375 per share.

Save as disclosed above, there has been no issue or exercise of any convertible securities, options, warrants or similar rights of the Company nor redemption or cancellation of any redeemable securities of the Company during the year.

REPORT OF THE DIRECTORS

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 on page 142.

SUBSIDIARIES

Particulars of the principal subsidiaries of the Company are set out in note 22 to the consolidated financial statements.

FIXED ASSETS

Details of movements in investment properties, property, plant and equipment, properties under development/held for development of the Group and the Company during the year are set out in notes 15 to 17 to the consolidated financial statements.

BORROWINGS

Particulars of the borrowings of the Group are set out in note 24 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 26 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 on page 58 and note 29 to the consolidated financial statements respectively.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2014, the aggregate sales attributable to the Group's five largest customers represented less than 30 per cent of the Group's total sales.

For the year ended December 31, 2014, the aggregate amount of purchases attributable to the Group's five largest suppliers represented approximately 51.59 per cent of the Group's total purchases, while the purchases attributable to the largest supplier for the Group accounted for approximately 29.50 per cent of the Group's total purchases. For the year ended December 31, 2014, none of the directors of the Company, their close associates nor any shareholders which to the knowledge of the directors own more than 5 per cent of the issued share capital of the Company had any beneficial interest in the Group's major suppliers.

DIRECTORS

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

Executive Directors

Li Tzar Kai, Richard (*Chairman*)

Lee Chi Hong, Robert (*Deputy Chairman and Chief Executive Officer*)

Lam Yu Yee (*Deputy Chief Executive Officer and Chief Financial Officer*) (*resigned with effect from November 25, 2014*)

James Chan

Gan Kim See, Wendy (*resigned with effect from March 18, 2015*)

Independent Non-Executive Directors

Cheung Kin Piu, Valiant

Prof Wong Yue Chim, Richard, SBS, JP

Dr Allan Zeman, GBM, GBS, JP

In accordance with bye-law 87 of the Bye-laws of the Company, Li Tzar Kai, Richard and James Chan will retire by rotation at the forthcoming annual general meeting and they, being eligible, will offer themselves for re-election.

In addition, each of the non-executive directors is appointed for a term of two years. As Cheung Kin Piu, Valiant was re-elected as director at the annual general meeting in 2013, he will retire at the forthcoming annual general meeting and he will not offer himself for re-election.

REPORT OF THE DIRECTORS

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 based on the terms of the independence guidelines as set out in Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) (“Listing Rules”).

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has with the Group an unexpired service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, SHARE STAPLED UNITS, UNDERLYING SHARES, UNDERLYING SHARE STAPLED UNITS AND DEBENTURES

As at December 31, 2014, the directors and the chief executives of the Company and their respective close associates had the following interests and short positions in the shares, share stapled units, underlying shares, underlying share stapled units and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) which were recorded in the register required to be kept under Section 352 of the SFO or 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 (“Model Code”) of the Listing Rules:

1. The Company

As at December 31, 2014, none of the directors or chief executives of the Company or their respective close associates had any interests or short positions in the shares or underlying shares or debentures of the Company as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code of the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, SHARE STAPLED UNITS, UNDERLYING SHARES, UNDERLYING SHARE STAPLED UNITS AND DEBENTURES – CONTINUED

2. Associated Corporations of the Company

A. Interests in PCCW Limited (“PCCW”)

The table below sets out the aggregate long positions of the directors and the chief executives of the Company in the shares of PCCW, the ultimate holding company of the Company, as at December 31, 2014:

Name of director/ chief executive	Number of ordinary shares held				Total	Approximate percentage of the total number of shares of PCCW in issue
	Personal interests	Family interests	Corporate interests	Other interests		
Li Tzar Kai, Richard	—	—	284,671,817 <i>(Note I(a))</i>	1,821,250,692 <i>(Note I(b))</i>	2,105,922,509	28.26%
Lee Chi Hong, Robert	992,600 <i>(Note II(a))</i>	511 <i>(Note II(b))</i>	—	—	993,111	0.01%

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, SHARE STAPLED UNITS, UNDERLYING SHARES, UNDERLYING SHARE STAPLED UNITS AND DEBENTURES – CONTINUED

2. Associated Corporations of the Company – Continued

A. Interests in PCCW Limited (“PCCW”) – Continued

Notes:

- I (a) Of these shares of PCCW, Pacific Century Diversified Limited (“PCD”), a wholly-owned subsidiary of Chiltonlink Limited (“Chiltonlink”), held 249,309,311 shares and Eisner Investments Limited (“Eisner”) held 35,362,506 shares. Li Tzar Kai, Richard owned 100% of the issued share capital of Chiltonlink and Eisner.
- (b) These interests represented:
- (i) a deemed interest in 36,726,857 shares of PCCW held by Yue Shun Limited (“Yue Shun”), a subsidiary of Hutchison Whampoa Limited (“HWL”). Cheung Kong (Holdings) Limited (“Cheung Kong”) through certain subsidiaries held more than one-third of the total number of shares of HWL in issue. 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. 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;
- (ii) a deemed interest in 162,194,916 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 162,194,916 shares of PCCW held by PCGH;
- (iii) a deemed interest in 1,622,325,919 shares of PCCW held by Pacific Century Regional Developments Limited (“PCRD”), a company in which PCGH had, through itself and certain wholly-owned subsidiaries being Anglang Investments Limited, Pacific Century Group (Cayman Islands) Limited, Pacific Century International Limited and Borsington Limited, an aggregate of 85.30% interest. 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 1,622,325,919 shares of PCCW held by PCRD. Li Tzar Kai, Richard was also deemed to be interested in 1.02% of the issued share capital of PCRD through Hopestar Holdings Limited, a company wholly-owned by Li Tzar Kai, Richard; and
- (iv) a deemed interest in 3,000 shares of PCCW held by PineBridge Investments LLC (“PBI LLC”) in the capacity of investment manager. PBI LLC was an indirect subsidiary of Chiltonlink and Li Tzar Kai, Richard owned 100% of the issued share capital of Chiltonlink. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 3,000 shares of PCCW held by PBI LLC in the capacity of investment manager.
- II. (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.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, SHARE STAPLED UNITS, UNDERLYING SHARES, UNDERLYING SHARE STAPLED UNITS AND DEBENTURES – CONTINUED

2. Associated Corporations of the Company – Continued

B. Interests in PCCW-HKT Capital No.4 Limited

FWD Life Insurance Company (Bermuda) Limited (“FWD”) held US\$9,000,000 of 4.25% guaranteed notes due 2016 issued by PCCW-HKT Capital No.4 Limited, an associated corporation of the Company. Li Tzar Kai, Richard indirectly owned an approximate 87.7% interest in FWD.

C. Interests in the HKT Trust and HKT Limited

The table below sets out the aggregate long positions in the share stapled units (“Share Stapled Units”) jointly issued by the HKT Trust and HKT Limited, an associated corporation of the Company, held by the directors and the chief executives of the Company as at December 31, 2014:

Name of director/ chief executive	Number of Share Stapled Units held				Total	Approximate percentage of the total number of Share Stapled Units in issue
	Personal interests	Family interests	Corporate interests	Other interests		
Li Tzar Kai, Richard	—	—	66,247,614 (Note I(a))	147,909,017 (Note I(b))	214,156,631	2.83%
Lee Chi Hong, Robert	50,924 (Note II(a))	25 (Note II(b))	—	—	50,949	0.0007%

Each Share Stapled Unit confers an interest in:

- (a) one voting ordinary share of HK\$0.0005 in HKT Limited (“HKT”); and
- (b) one voting preference share of HK\$0.0005 in HKT,

for the purposes of Part XV of the SFO, in addition to an interest in one unit in the HKT Trust.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, SHARE STAPLED UNITS, UNDERLYING SHARES, UNDERLYING SHARE STAPLED UNITS AND DEBENTURES – CONTINUED

2. Associated Corporations of the Company – Continued

C. Interests in the HKT Trust and HKT Limited – Continued

Under the trust deed dated November 7, 2011 constituting the HKT Trust entered into between HKT Management Limited (in its capacity as the trustee-manager of the HKT Trust) and HKT, as supplemented, amended or substituted from time to time and the amended and restated articles of association of HKT, the number of ordinary shares and preference shares of HKT in issue must be the same at all times and must also, in each case, be equal to the number of units of the HKT Trust in issue; and each of them is equal to the number of Share Stapled Units in issue.

Notes:

- I.
 - (a) Of these Share Stapled Units, PCD held 20,227,614 Share Stapled Units and Eisner held 46,020,000 Share Stapled Units.
 - (b) These interests represented:
 - (i) a deemed interest in 3,122,464 Share Stapled Units held by Yue Shun. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 3,122,464 Share Stapled Units held by Yue Shun;
 - (ii) a deemed interest in 13,159,619 Share Stapled Units held by PCGH. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 13,159,619 Share Stapled Units held by PCGH;
 - (iii) a deemed interest in 131,626,804 Share Stapled Units held by PCRD. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 131,626,804 Share Stapled Units held by PCRD; and
 - (iv) a deemed interest in 130 Share Stapled Units held by PBI LLC in the capacity of investment manager. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 130 Share Stapled Units held by PBI LLC in the capacity of investment manager.
- II.
 - (a) These Share Stapled Units were held jointly by Lee Chi Hong, Robert and his spouse.
 - (b) These Share Stapled Units were held by the spouse of Lee Chi Hong, Robert.

Save as disclosed in the foregoing, as at December 31, 2014, none of the directors or chief executives of the Company or their respective close associates had any interests or short positions in any shares, Share Stapled Units, underlying shares, underlying Share Stapled Units or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code of the Listing Rules.

SHARE OPTIONS AND DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Particulars of the share option schemes of the Company are set out in note 28 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, 2014 are as follows:

1. Outstanding options as at January 1, 2014 and as at December 31, 2014 (all dates are shown month/day/year)

Category of participant	Date of grant	Vesting period	Exercise period	Exercise price HK\$	Number of options	
					Outstanding as at 01.01.2014	Outstanding as at 12.31.2014
Director of a subsidiary of the Company	12.20.2004	Fully vested on 12.20.2004	12.20.2004 to 12.19.2014	2.375	5,000,000	– <i>(see 3 below)</i>

2. Options granted during the year ended December 31, 2014

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

3. Options exercised during the year ended December 31, 2014

In October 2014, the options in 1 above were fully exercised which resulted in 5,000,000 shares of the Company being issued and allotted and the weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$3.61.

4. Options cancelled or lapsed during the year ended December 31, 2014

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

No share options have been granted under the 2005 share option scheme since its adoption. The 2005 share option scheme will expire on May 22, 2015 and an ordinary resolution will be proposed at the forthcoming annual general meeting of the Company to terminate the 2005 share option scheme and adopt a new scheme. Following the termination of the 2005 share option scheme, no further share option will be granted under such scheme, and the provisions of the 2005 share option scheme will remain in full force and effect in all other respects.

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.

REPORT OF THE DIRECTORS

INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF SUBSTANTIAL SHAREHOLDER

1. Interests in the shares and underlying shares of the Company

As at December 31, 2014, the following person (other than directors or the chief executives 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
PCCW	Beneficial owner	1,470,155,332 (Note)

Note:

These interests comprised (a) an interest in 285,088,666 shares in the Company held by Asian Motion Limited (“Asian Motion”), a wholly-owned subsidiary of PCCW; and (b) an interest in 1,185,066,666 underlying shares of the Company in relation to the bonus convertible notes in the aggregate amount of HK\$592,533,333.20 as held by Asian Motion.

2. Short Positions in shares and underlying shares of the Company

As at December 31, 2014, the Company had not been notified of any 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, 2014, 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, 2014, 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	Name of company	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 infrastructure business and securities	Deemed interests in Cheung Kong (<i>Note I</i>)
	HWL and its subsidiaries ("Hutchison Group")	Ports and related services; property and hotels; retail; infrastructure; energy; telecommunications; and finance & investments and others	Certain personal and deemed interests in HWL (<i>Note II</i>)

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.
- 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.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN COMPETING BUSINESS – CONTINUED

In addition, Li Tzar Kai, Richard is a director of certain private companies (“Private Companies”), which are engaged in property development and investment in Hong Kong and Japan.

Further, Li Tzar Kai, Richard is a director and chairman of PCRDR. PCRDR is an investment holding company with interests in telecommunications and media (through PCCW), financial services, property and infrastructure investment and development in the Asia Pacific region.

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 and the Asia Pacific region 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 PCRDR and PCGH due to the interests as disclosed under the section headed “Directors’ and Chief Executives’ Interests and Short Positions in Shares, Share Stapled Units, Underlying Shares, Underlying Share Stapled Units and Debentures” of this report.

As PCRDR 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 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.

CHARITABLE DONATIONS

During the year, the Group made charitable donations in the aggregate amount of approximately HK\$1.02 million (2013: Nil).

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 27 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, 2013, the Group had entered into (or continued to be a party to) certain transactions which are "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 subsidiaries and associates of PCCW and HKT during the year are as follows:

Continuing connected transactions

1. As disclosed in the announcement of the Company dated December 13, 2012, PCPD Facilities Management Limited ("PCPD FM"), a wholly-owned subsidiary of the Company, had entered into a facilities management services agreement and a lease and tenant management services agreement ("Agreements") with Reach Networks Hong Kong Limited ("Reach Networks"), a wholly-owned subsidiary of Reach Ltd., which is an associate of PCCW, on that day in relation to the facilities management services and lease and tenant management services it provides to Reach Networks from January 1, 2013 onwards for a term of two years until December 31, 2014 at the fees calculated in accordance with the terms of the Agreements, subject to the annual caps of HK\$27 million and HK\$2.7 million for facilities management services and lease and tenant management services respectively for each of the two years ended December 31, 2013 and 2014 as disclosed in the announcement. The aggregate fees charged by PCPD FM under the Agreements for the period from January 1, 2014 to December 31, 2014 were approximately HK\$26.8 million and HK\$0.4 million for facilities management services and lease and tenant management services respectively.

In the announcement dated December 18, 2014, the Company announced that PCPD FM and Reach Networks entered into a new set of the facilities management services agreement and the lease and tenant management services agreement ("New Agreements") on that day in order to continue the provision of the facilities management services and lease and tenant management services to Reach Networks from January 1, 2015 onwards for a term of two years until December 31, 2016 at the fees calculated in accordance with the terms of the New Agreements, subject to the annual caps as disclosed in the announcement.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS – CONTINUED

Continuing connected transactions – continued

2. As disclosed in the announcement of the Company dated December 9, 2013, PCPD Operations Limited (“PCPDOL”), an indirect wholly-owned subsidiary of the Company, had on that day entered into a master agreement with each of the following parties for procurement of goods and services: (i) PCCW Solutions Limited, an indirect wholly-owned subsidiary of PCCW (PCCW together with its subsidiaries, “PCCW Group”; PCCW Group excluding the Group and the HKT Group (as defined below), “Parent Group”) (the agreement with this entity shall be referred to as the “Parent Group Master Agreement”); and (ii) Hong Kong Telecommunications (HKT) Limited, an indirect wholly-owned subsidiary of HKT Limited (“HKT”, together with its subsidiaries, “HKT Group”) (the agreement with this entity shall be referred to as the “HKT Group Master Agreement”). Such agreements set out the frameworks for the provision of certain goods and services by the Parent Group and the HKT Group respectively to the Group for a term of three years from January 1, 2014 to December 31, 2016 at prices to be determined in accordance with the terms stipulated therein and subject to the annual caps as disclosed in the announcement. The categories of goods and services as provided under (i) the Parent Group Master Agreement are (a) Information Technology Solutions and Services and (b) Corporate Services and Other Services, and those provided under (ii) the HKT Group Master Agreement are (a) Telecommunications and Related Equipment and Services and (b) Corporate Services and Other Services.

The aggregate contract amounts for transactions contemplated under the Parent Group Master Agreement for the financial year ended December 31, 2014 are set out below:

Categories of Goods and Services	Approximate aggregate contract amount for the financial year ended December 31, 2014	Annual Cap for the financial year ended December 31, 2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
Information Technology Solutions and Services	1,038	3,200
Corporate Services and Other Services	590	950

CONNECTED TRANSACTIONS – CONTINUED

Continuing connected transactions – continued

2. – continued

The aggregate contract amounts for transactions contemplated under the HKT Group Master Agreement for the financial year ended December 31, 2014 are set out below:

Categories of Goods and Services	Approximate aggregate contract amount for the financial year ended December 31, 2014	Annual Cap for the financial year ended December 31, 2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
Telecommunications and Related Equipment and Services	4,395	6,300
Corporate Services and Other Services	5,583	5,900

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS – CONTINUED

Continuing connected transactions – continued

3. As disclosed in the announcement of the Company dated December 9, 2013, 北京京威房地產開發有限公司 (Beijing Jing Wei House and Land Estate Development Co., Ltd.*) (“BJJW”), the then indirect wholly-owned subsidiary of the Company, (as lessor) has entered into in December 2013 or will enter into afterwards various lease and licence agreements as identified and disclosed in the announcement with (i) companies within the Parent Group, and (ii) companies within the HKT Group in relation to certain units and spaces at Pacific Century Place, Beijing (“PCP Beijing”), the then investment property of the Group located at No. 2A Gong Ti Bei Lu, Chaoyang District, Beijing, China; and BJJW intended to sign further lease and licence agreements with companies within the Parent Group and the HKT Group respectively from time to time during the period from 2014 to 2016. All such lease and licence agreements are subject to rentals and licence fees in accordance with the terms stipulated therein and are subject to the annual caps as disclosed in the announcement. All leases or licenses of units and spaces at PCP Beijing between the Group and the Parent Group (“Parent Group Leases”) and between the Group and the HKT Group (“HKT Group Leases”) were required to be aggregated for each financial year.

The annual cap and actual aggregate amount of the Parent Group Leases for the financial year ended December 31, 2014 are set out below:

	Approximate aggregate amount for the financial year ended December 31, 2014	Annual Cap for the financial year ended December 31, 2014
	<i>RMB'000</i>	<i>RMB'000</i>
Aggregate Value	5,896	11,500

The annual cap and actual aggregate amount of the HKT Group Leases for the financial year ended December 31, 2014 are set out below:

	Approximate aggregate amount for the financial year ended December 31, 2014	Annual Cap for the financial year ended December 31, 2014
	<i>RMB'000</i>	<i>RMB'000</i>
Aggregate Value	2,281	6,000

CONNECTED TRANSACTIONS – CONTINUED

Continuing connected transactions – continued

3. – continued

On August 12, 2014, BJW ceased to be a subsidiary of PCPD upon the completion of the Group's disposal of Gain Score Group companies ("Sale") (which comprised Gain Score Limited, New Mile International Limited and BJW, all being wholly-owned subsidiaries of the Company before the Sale) and PCP Beijing was held by BJW; after the Sale, Gain Score Group companies ceased to be part of the Group and hence the Parent Group Leases and the HKT Group Leases are no longer transactions of the Group after the Sale. Therefore, the aggregate value of both Parent Group Leases and HKT Group Leases for the financial year ended December 31, 2014 was calculated up to August 12, 2014 i.e. the completion date of the Sale. Details of the disposal (including the fact that this category of agreements will cease to constitute continuing connected transactions for the Group) were disclosed in the announcement of the Company dated April 8, 2014 and the circular of the Company dated April 16, 2014.

As at December 31, 2014, PCCW, a substantial shareholder of the Company, held approximately 70.80% and approximately 63.07% equity interest in the Company and HKT respectively.

The independent non-executive directors of the Company had reviewed and confirmed that the continuing connected transactions for the financial year ended December 31, 2014 have been entered into:

- A. in the ordinary and usual course of the business of the Group;
- B. on normal commercial terms or better; and
- C. according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditor of the Company was engaged to report on the continuing connected transactions entered into by the Group for the year ended December 31, 2014 in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules.

REPORT OF THE DIRECTORS

CONTINUING OBLIGATIONS UNDER CHAPTER 13 OF THE LISTING RULES

In accordance with the requirements under Rule 13.21 of the Listing Rules, the directors of the Company reported the details of the loan facilities of the Group as follows:

As disclosed in the announcement of the Company dated October 8, 2012 (“Announcement”), in order to support the development projects of the Group, Pride Pacific Limited (“Pride Pacific”), a wholly-owned subsidiary of the Company, and BJW had obtained new banking facilities.

On October 8, 2012, a HKD facility agreement (“HKD Facility Agreement”) was entered into by Pride Pacific as the borrower and the agent of the obligors therein, the Company and New Mile International Limited, the then wholly-owned subsidiary of the Company, as guarantors, Standard Chartered Bank (Hong Kong) Limited as facility agent and security agent and the financial institutions as lenders and co-ordinating arrangers. Under the HKD Facility Agreement, the lenders would make available to Pride Pacific a term loan facility and a revolving loan facility, with loans up to the aggregate amount of HK\$3,000,000,000 (“HKD Facility”). All amounts borrowed would be applied towards the general corporate purposes of the Group. Any loan made under the HKD Facility must be repaid on the date falling 36 months after the date of the HKD Facility Agreement.

On October 8, 2012, a RMB facility agreement (“RMB Facility Agreement”) was entered into by BJW as the borrower, Standard Chartered Bank (China) Limited as the RMB facility coordinator and Standard Chartered Bank (China) Limited, Beijing Branch as the sole lender. Under the RMB Facility Agreement, the lender would make available to BJW a term loan facility of up to the aggregate amount of RMB100,000,000 (“RMB Facility”). The RMB Facility is a fixed assets loan, which shall be used towards the construction costs, and any other costs and expenses in connection with the refurbishment, redecoration, or maintenance of the Property (as defined in the Announcement) or any other improvement of the Property. Any loan made under the RMB Facility must be repaid on the date falling 36 months after the date of the RMB Facility Agreement.

The HKD Facility Agreement contains a specific performance obligation under which the mandatory prepayment obligation (as defined in the Announcement) may arise when PCCW ceases to control the Company (“Specific Performance Obligation”). As at the date of this report, PCCW controlled the Company.

A breach of the Specific Performance Obligation under the HKD Facility Agreement would, if it constitutes an event of default under the HKD Facility Agreement, also constitute an event of default under the RMB Facility Agreement.

Upon the completion of the Group’s Sale on August 12, 2014, the HKD Facility has been fully repaid and the RMB Facility has been cancelled.

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 had complied with the applicable requirements of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, based on information that was publicly available to the Company and within the knowledge of the directors of the Company, the directors confirmed that the Company maintained the prescribed public float as required under the Listing Rules.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the corporate governance report on pages 19 to 32 of this annual report.

AUDITOR

The financial statements for the financial year ended December 31, 2014 were 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

TSANG Sai Chung

Company Secretary

Hong Kong, February 10, 2015

* *For identification only*

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

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 (together, the “Group”) set out on pages 56 to 141, which comprise the consolidated and company balance sheets as at 31 December 2014, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the consolidated financial statements are free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 31 December 2014, 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 Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 10 February 2015

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2014

HK\$ million	Note(s)	2014	2013 (Restated)
Continuing operations			
Turnover	4, 5	166	438
Cost of sales		(58)	(280)
Gross profit		108	158
General and administrative expenses		(376)	(389)
Other income		1	3
Other losses, net	6	(82)	(4)
Operating loss		(349)	(232)
Interest income		12	7
Finance costs	7	(83)	(214)
Loss before taxation	8	(420)	(439)
Income tax	11	(21)	(18)
Loss attributable to equity holders of the Company from continuing operations		(441)	(457)
Discontinued operation			
Profit attributable to equity holders of the Company from discontinued operation	12(a)	1,932	534
Profit attributable to equity holders of the Company		1,491	77

HK\$ million	Note(s)	2014	2013 (Restated)
Other comprehensive loss:			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Currency translation differences:			
Exchange differences on translating foreign operations		(195)	(272)
Reclassification adjustments arising from disposal of subsidiaries		(1,245)	—
Total comprehensive income/(loss)		51	(195)
Total comprehensive income/(loss) arises from:			
Continuing operations		(559)	(890)
Discontinued operation		610	695
		51	(195)
(Loss)/earnings per share from continuing operations and discontinued operation (expressed in Hong Kong cents per share)			
Basic (loss)/earnings per share	14		
Continuing operations		(27.86) cents	(28.82) cents
Discontinued operation		121.99 cents	33.71 cents
		94.13 cents	4.89 cents
Diluted (loss)/earnings per share	14		
Continuing operations		(27.86) cents	(28.82) cents
Discontinued operation		121.99 cents	33.71 cents
		94.13 cents	4.89 cents

The notes on pages 63 to 141 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2014

HK\$ million	2014							
	Issued equity	Capital reserve	Currency translation reserve	Convertible notes reserve	Other reserves	Employee share-based compensation reserve	Retained earnings	Total
Balance at January 1, 2014	2,836	(565)	1,002	1,361	10	—	855	5,499
Total comprehensive (loss)/income for the year	—	—	(1,440)	—	—	—	1,491	51
Redemption of 2014 Convertible Note (note 24(a))	—	—	—	(769)	—	—	769	—
Exercise of share options (note 28(a))	12	—	—	—	—	—	—	12
Balance at December 31, 2014	2,848	(565)	(438)	592	10	—	3,115	5,562

HK\$ million	2013							
	Issued equity	Capital reserve	Currency translation reserve	Convertible notes reserve	Other reserves	Employee share-based compensation reserve	Retained earnings	Total
Balance at January 1, 2013	2,836	(565)	1,274	1,361	10	17	761	5,694
Total comprehensive (loss)/income for the year	—	—	(272)	—	—	—	77	(195)
Reclassification due to expiry of share options	—	—	—	—	—	(17)	17	—
Balance at December 31, 2013	2,836	(565)	1,002	1,361	10	—	855	5,499

The notes on pages 63 to 141 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2014

HK\$ million	Note	2014	2013
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	15	1,926	8,519
Property, plant and equipment	16	126	175
Properties under development	17(a)	352	401
Properties held for development	17(b)	566	645
Intangible asset	18	—	27
Goodwill	19	3	3
Other financial assets	20	2	1
Other non-current receivables		154	2
		3,129	9,773
Current assets			
Sales proceeds held in stakeholders' accounts	23(a)	528	541
Restricted cash	23(b)	1,022	1,032
Trade receivables, net	23(c)	8	14
Prepayments, deposits and other current assets		336	84
Amounts due from fellow subsidiaries	35(c)	1	4
Amounts due from related companies	35(c)	3	11
Other financial assets	20	4	2
Short-term deposits		—	10
Cash and cash equivalents		2,466	866
		4,368	2,564

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2014

HK\$ million	Note	2014	2013
Current liabilities			
Current portion of long-term borrowings	24	—	2,844
Trade payables	23(d)	17	16
Accruals, other payables and deferred income	23(e)	556	512
Amounts due to fellow subsidiaries	35(c)	2	5
Amount payable to the HKSAR Government under the Cyberport Project Agreement	25	522	521
Current income tax liabilities		651	8
		1,748	3,906
Net current assets/(liabilities)		2,620	(1,342)
Total assets less current liabilities		5,749	8,431
Non-current liabilities			
Long-term borrowings	24	—	1,467
Other payables		161	450
Deferred income tax liabilities	30(a)	26	1,015
		187	2,932
Net assets		5,562	5,499
REPRESENTING:			
Issued equity	26	2,848	2,836
Reserves		2,714	2,663
		5,562	5,499

Approved by the board of directors on February 10, 2015 and signed on behalf of the Board by

Lee Chi Hong, Robert
Director

James Chan
Director

The notes on pages 63 to 141 form part of these financial statements.

BALANCE SHEET

AS AT DECEMBER 31, 2014

HK\$ million	Note	2014	2013
ASSETS AND LIABILITIES			
Non-current asset			
Investment in a subsidiary	21	2,870	2,870
Current assets			
Prepayments		1	—
Amounts due from subsidiaries	21	7,069	7,063
Cash and cash equivalents		1	—
		7,071	7,063
Current liabilities			
Accruals and other payables		2	2
Amount due to a subsidiary	21	4,693	4,693
		4,695	4,695
Net current assets		2,376	2,368
Total assets less current liabilities		5,246	5,238
Net assets		5,246	5,238
REPRESENTING:			
Share capital	26(b)	201	199
Reserves	29	5,045	5,039
		5,246	5,238

Approved by the board of directors on February 10, 2015 and signed on behalf of the Board by

Lee Chi Hong, Robert

Director

James Chan

Director

The notes on pages 63 to 141 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2014

HK\$ million	Note	2014	2013 (Restated)
OPERATING ACTIVITIES			
Continuing operations	31	(249)	(89)
Discontinued operation		66	133
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES		(183)	44
INVESTING ACTIVITIES			
Continuing operations			
– Purchases of property, plant and equipment		(17)	(6)
– Proceeds from disposal of property, plant and equipment		—	3
– Payment for investment properties		(566)	(1,409)
– Decrease/(Increase) in short-term deposits with maturity more than three months		5	(5)
Discontinued operation			
– Cash outflow from investing activities of discontinued operation		(11)	(37)
– Net cash inflow arising from the disposal of subsidiaries	12(c)	6,851	—
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES		6,262	(1,454)
FINANCING ACTIVITIES			
Continuing operations			
– Proceeds from shares issued from share option scheme		12	—
– Proceeds from bank borrowings		—	1,500
– Other borrowing costs paid		(72)	(62)
– Repayment of bank borrowings		(1,500)	—
– Redemption of 2014 Convertible Note	24(a)	(2,904)	—
Discontinued operation			
		—	(1)
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES		(4,464)	1,437
INCREASE IN CASH AND CASH EQUIVALENTS		1,615	27
Exchange difference		(15)	10
CASH AND CASH EQUIVALENTS			
Balance at January 1,		866	829
Balance at December 31,		2,466	866

The notes on pages 63 to 141 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014 (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 Asia.

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, 2014, the directors consider the immediate holding 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 56 to 141 were approved by the board of directors (the “Board”) on February 10, 2015.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

a. Statement of compliance

These financial statements have been prepared in accordance with the applicable Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of the Companies Ordinance of Hong Kong. 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, 2014 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost convention, except that the following assets and liabilities are stated at fair value as explained in the accounting policies set out below:

- investment properties (note 2(g));
- financial assets at fair value through profit or loss (note 2(n)); and
- derivative financial instruments (note 2(o)).

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.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014 (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

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.

Standards and amendments effective from January 1, 2014 adopted by the Group but have no significant impact on the Group's financial statements

HKAS 32 (Amendment)	Presentation – Offsetting Financial Assets and Financial Liabilities
HKAS 36 (Amendment)	Recoverable Amount Disclosures for Non-Financial Assets
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Novation of derivatives
HKFRS 10, 12 and HKAS 27 (Amendments)	Consolidation for Investment Entities
HK(IFRIC) – Int 21	Levies

The following new standards and amendments have been issued but are not yet effective for the year ended December 31, 2014 and which the Group has not early adopted:

HKAS 19 (2011) (Amendment)	Defined Benefits Plans: Employee Contribution ¹
HKAS 16 (Amendment)	Property, Plant and Equipment – Depreciation ²
HKAS 27 (Amendment)	Separate Financial Statements – Equity Method ²
HKAS 38 (Amendment)	Intangible Assets – Amortisation ²
HKFRS 9	Financial Instruments ⁴
HKFRS 10 and HKAS 28 (Amendments)	Consolidated Financial Statements – Sales and Contribution of Assets ²
HKFRS 11 (Amendment)	Joint Arrangements ²
HKFRS 15	Revenue from Contracts with Customers ³

Note:

- ¹ Effective for annual periods beginning on or after July 1, 2014
- ² Effective for annual periods beginning on or after January 1, 2016
- ³ Effective for annual periods beginning on or after January 1, 2017
- ⁴ Effective for annual periods beginning on or after January 1, 2018

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

b. Basis of preparation of the financial statements – Continued

Apart from the above, a number of annual improvements and amendments to HKFRS have also been issued by the HKICPA but they are not yet effective for the accounting period ended December 31, 2014 and have not been adopted in these financial statements.

The Group has been evaluating the impact of these new HKFRS but is not yet in a position to state whether all these new HKFRS would have a significant impact on the Group's results of operations and financial position.

c. Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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 Group uses the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint arrangement or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

c. Subsidiaries – Continued

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 a subsidiary is stated at cost less any impairment losses (note 2(i)). The results of subsidiaries are recognised by the Company to the extent of dividends received and receivable at the balance sheet date.

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.

(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) Service income

Service income is recognised when services are rendered to customers.

(iv) 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.

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

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

Property, plant and equipment held for own use are stated in the balance sheet at cost less accumulated depreciation and impairment losses (note 2(i)). 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 (note 2(t)). 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 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.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014 (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 – Continued

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 51 years
Other plant and equipment	2 to 17 years

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

g. Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation, and which are not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties.

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 periodically 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. Intangible asset (other than goodwill)

Other intangible asset acquired by the Group is stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (note 2(i)).

Amortisation of intangible asset with finite useful lives is charged to income statement on a straight-line basis over the asset's estimated useful lives. The right for rental collection is amortised from the date it is available for use and the estimated useful life is 20 years.

Both the intangible asset's useful life and the method of amortisation are reviewed annually.

i. Impairment of investment in a subsidiary 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;
- intangible asset;
- properties under development/held for development;
- pre-paid interests in leasehold land classified as being held under an operating lease;
- investment in a subsidiary; 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.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

i. Impairment of investment in a subsidiary and non-financial assets – Continued

(ii) Reversals of impairment losses

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

A reversal of an impairment loss 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.

j. Properties under development/held for development

Properties under development 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 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.

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

k. Goodwill

Goodwill represents the excess of the aggregate of the fair value of the consideration transferred and the fair value of non-controlling interest over the Group's interest in the net fair value of the acquiree's net identifiable assets, liabilities and contingent liabilities at the date of acquisition.

Goodwill is stated in the consolidated balance sheet at cost less accumulated impairment losses (note 2(i)). Goodwill is allocated to cash-generating units and is tested annually for impairment. Impairment losses on goodwill are not reversed. On disposal of an entity or business unit, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

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.

n. Financial assets at fair value through profit or loss

The Group and the Company classify their investments in equity securities, other than investment in a subsidiary, as financial assets at fair value through profit or loss. This category comprises financial assets held for trading and those designated as fair value through profit or loss at inception. A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the short term or if so designated by management. Financial assets at fair value through profit or loss are classified as current assets, if they are either held for trading or are expected to be realised within 12 months from the balance sheet date. Any attributable transaction costs are recognised in the income statement as incurred. At each balance sheet date, the fair value is re-measured, with any unrealised holding gains or losses arising from the changes in fair value being recognised in the income statement in the period in which they arise. The net gain or loss recognised in the income statement does not include any dividends on the financial assets as dividend income is recognised only when the shareholder’s right to receive payment is established.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

o. Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured 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.

Convertible notes that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

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.

p. 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 Company or 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 Company or 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".

q. 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. They are included in current liabilities, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current liabilities.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

r. 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.

s. Borrowings

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between the amount initially recognised, being the proceeds net of transaction costs, and the redemption value being recognised in the income statement over the period of the borrowings, using the effective interest method.

t. 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.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

u. Discontinued operation

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued operation, a single amount is presented in the statement of comprehensive income, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

v. 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.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(g), the amount of deferred income tax recognised is measured using the tax rates would apply on sale of those assets at their carrying value at the balance sheet unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, 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.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

v. Income tax – Continued

- (iii) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:
- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
 - in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

w. 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.

NOTES TO THE FINANCIAL STATEMENTS

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2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

w. Employee benefits – Continued

- (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.
- (iv) The Board of directors of PCCW may also grants shares of PCCW to employees of the Group at nil consideration under its share award scheme; which the awarded shares are either newly issued at par value (the “Subscription Scheme”) or are purchased from the open market (the “Purchase Scheme”).

Awards under the Purchase Scheme and the Subscription Scheme, are accounted for as cash-settle share-based payments. The fair value of the awarded PCCW shares represents the quoted market price of PCCW shares purchased from the open market under the Purchase Scheme and the issue price of PCCW shares under the Subscription Scheme are recognised as financial assets at fair value through profit and loss, and subsequently measured at fair value. The fair value of the employee services received in exchange for the grant of PCCW shares are recognised as staff costs in the income statement over the respective vesting period with a corresponding obligation being recognised. On vesting date, the amount recognised as staff costs is adjusted to reflect the actual number of awarded PCCW shares that vest (with a corresponding adjustment to the obligation) and the carrying amount of awarded PCCW shares recognised in the financial assets at fair value through profit and loss is offset with the obligation.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

x. Share-based payment transactions with cash alternatives

Share-based payment transactions are those arrangement which the terms provide either the Group or the counterparty with a choice of whether the Group settles the transaction in cash (or other assets) or by issuing equity instruments. Upon the vesting conditions, if any, are met, the Group shall account for that transaction, or the components of that transaction, as a cash-settled share-based payment transaction if, and to the extent that, the Group has incurred a liability to settle in cash (or other assets). Otherwise, the share-based payment transaction is accounted for as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred.

y. 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 dollars, 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 in other comprehensive income and accumulated separately in the currency translation reserve under equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are recognised in other comprehensive income and accumulated separately 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 gain or loss on disposal.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

z. Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's senior management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

aa. Dividend distribution

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

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 has made judgements in applying the Group's accounting policies. The judgement that has the most significant effect on the amounts recognised in the financial statements is discussed below:

(i) Purchase consideration for a plot of land in Indonesia

On May 23, 2013, the Group entered into the Land Sale and Purchase Agreement (the "Land SPA") for the acquisition of a plot of land for the development of a Premium Grade A office building in Jakarta, Indonesia. The total consideration under the Land SPA is US\$184 million (equivalent to approximately HK\$1,428 million), which is subject to various downward adjustments in certain circumstances.

Management expected that the seller of the land will be able to fulfill the conditions as set out in the Land SPA and the deductions from the outstanding consideration is unlikely, as such the total consideration of US\$184 million is recorded as the cost of the land and the outstanding consideration to be paid is recorded as payables as at December 31, 2014.

In case there is any downward adjustment from the consideration to be paid for the land acquisition, it would affect the payable to the seller recorded in the balance sheet as at December 31, 2014.

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 be 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) 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 on a market value basis and (ii) other principal assumptions, including the current and expected market yield, market price, market rent and the outstanding development costs in view of the current usage and condition of the investment properties to determine the fair value of the investment properties. Had the Group used different market yields, market prices, market rents or 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, 2014, the fair value of the investment property was HK\$1,926 million.

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

Pursuant to the agreement dated May 17, 2000 entered into with the HKSAR Government (“Cyberport Project Agreement”), the HKSAR Government 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 estimated cost of developing the Cyberport project, including construction costs and the amounts paid and payable to the HKSAR Government is allocated to the 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. Had the estimates of these relative values been revised, this would have affected the costs of properties sold recorded in the consolidated income statement.

(iii) Taxation

The Group is subject to tax in Mainland China, Hong Kong and other jurisdictions. Judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxation. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax provisions in the periods in which such determination are made.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014 (Amount expressed in Hong Kong dollars unless otherwise stated)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – CONTINUED

(iii) Taxation – Continued

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 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, 2014, no deferred income tax assets were netted off against the deferred income tax liabilities recognised in the consolidated balance sheet (note 30(a)).

(iv) Impairment of investment in a subsidiary and non-financial assets

At each balance sheet date, the Group and the Company review internal and external sources of information 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;
- intangible asset;
- properties under development/held for development;
- pre-paid interests in leasehold land classified as being held under an operating lease;
- investment in a subsidiary; 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 sources used to identify indications of impairment are often subjective in nature and the Group is required to use judgement in applying such information to its business. The Group's interpretation of this information has a direct impact on whether an impairment assessment is performed as at any given balance sheet date.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – CONTINUED

(iv) Impairment of investment in a subsidiary and non-financial assets – Continued

If an indication of impairment is identified, such information is further subject to an exercise that requires the Group to estimate the recoverable value, representing the greater of the asset's fair value less cost to sell or its value in use. Depending on the Group's assessment of the overall materiality of the asset under review and complexity of deriving reasonable estimates of the recoverable value, the Group may perform such assessment utilising internal resources or the Group may engage external advisors to counsel the Group in making this assessment. Regardless of the resources utilised, the Group is required to make many assumptions to make this assessment, including the utilisation of such asset, the cash flows to be generated, appropriate market discount rates and the projected market and regulatory conditions. Changes in any of these assumptions could result in a material change to future estimates of the recoverable value of any asset.

For the year ended December 31, 2014, provision for impairment of HK\$84 million was recognised on the property held for development resulting in the carrying amount being written down to its recoverable amount of approximately HK\$566 million (note 17(b)).

4. TURNOVER FROM CONTINUING OPERATIONS

Turnover from continuing operations comprises the revenue recognised in respect of the following businesses:

HK\$ million	The Group	
	2014	2013
Property development	—	283
Property investment	2	1
All-season recreational activities	77	72
Property management in Hong Kong	27	25
Facilities management in Hong Kong	28	27
Other businesses	32	30
	166	438

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014 (Amount expressed in Hong Kong dollars unless otherwise stated)

5. SEGMENT INFORMATION

Information regarding the Group's reportable segments as provided to the Group's senior management for the purposes of resources allocation and assessment of segment performance for the year ended December 31 is set out below:

a. Business segments

	Property development in Hong Kong		All-season recreational activities in Japan		Property investment in Indonesia		Property development in Thailand (note i)		Other businesses (note ii)		Elimination		Consolidated from continuing operations		Discontinued operation (note iii)		Consolidated	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
HK\$ million																		
Revenue																		
Revenue from external customers	—	283	77	72	—	—	—	—	89	83	—	—	166	438	149	236	315	674
Inter-segment revenue	—	—	—	—	—	—	—	—	2	2	(2)	(2)	—	—	—	—	—	—
Reportable segment revenue	—	283	77	72	—	—	—	—	91	85	(2)	(2)	166	438	149	236	315	674
Results																		
Segment results before taxation	(14)	39	(1)	(14)	(22)	(6)	(97)	(12)	(13)	(7)	—	—	(147)	—	2,777	732	2,630	732
Unallocated corporate expenses													(273)	(439)	—	—	(273)	(439)
Consolidated segment results before taxation													(420)	(439)	2,777	732	2,357	293
Other information																		
Provision for impairment of property held for development	—	—	—	—	—	—	(84)	—	—	—	—	—	(84)	—	—	—	(84)	—
Addition to non-current segment assets during the year	—	—	10	4	212	1,810	6	11	5	4	—	—	233	1,829	16	32	249	1,861
Unallocated addition													5	2	—	—	5	2
Consolidated addition to non-current segment assets during the year													238	1,831	16	32	254	1,863

5. SEGMENT INFORMATION- CONTINUED

a. Business segments – Continued

HK\$ million	Property development in Hong Kong		All-season recreational activities in Japan		Property investment in Indonesia		Property development in Thailand (note i)		Other businesses (note ii)		Consolidated from continuing operations		Discontinued operation (note iii)		Consolidated	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Segment assets	1,558	1,569	90	86	2,329	1,888	573	652	541	599	5,091	4,794	—	7,207	5,091	12,001
Unallocated corporate assets											2,406	336	—	—	2,406	336
Consolidated total assets											7,497	5,130	—	7,207	7,497	12,337
Segment liabilities	649	666	22	15	491	658	8	8	55	45	1,225	1,392	—	1,092	1,225	2,484
Unallocated corporate liabilities											710	4,354	—	—	710	4,354
Consolidated total liabilities											1,935	5,746	—	1,092	1,935	6,838

- (i) The segment for property development in Thailand has met the quantitative thresholds under HKFRS 8 for reportable segments during the year ended December 31, 2014, therefore it is separately disclosed and its comparative figures have been restated. It was included in other businesses for the year ended December 31, 2013.
- (ii) Revenue from segments below the quantitative thresholds under HKFRS 8 are attributable to six operating segments of the Group. Those segments include property management in Hong Kong and Japan, asset management in Mainland China and property investment and facilities management in Hong Kong while property developments in Japan have not commenced revenue generation yet. None of these segments have ever met any of the quantitative thresholds for determining reportable segments.
- (iii) Discontinued operation mainly represents the property investment in Mainland China (note 12).

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014 (Amount expressed in Hong Kong dollars unless otherwise stated)

5. SEGMENT INFORMATION- CONTINUED

b. Geographical information

The following table sets out information about geographical location of (i) the Group's revenue from external customers and (ii) the Group's investment properties, property, plant and equipment, properties under development, properties held for development, intangible asset, goodwill and other non-current receivables ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of investment properties, property, plant and equipment and properties under development/held for development, and the location of the operation to which they are allocated, in case of intangible asset, goodwill and other non-current receivables.

HK\$ million	Revenue from external customers		Specified non-current assets	
	2014	2013	2014	2013
Continuing operations:				
Hong Kong (place of domicile)	57	336	60	56
Mainland China	14	14	16	19
Japan	95	88	456	517
Thailand	—	—	567	646
Indonesia	—	—	2,028	1,810
	166	438	3,127	3,048
Discontinued operation:				
Mainland China	149	236	—	6,724
	315	674	3,127	9,772

6. OTHER LOSSES FROM CONTINUING OPERATIONS

HK\$ million	The Group	
	2014	2013
Fair value loss on the derivative financial instrument	—	(4)
Fair value gain on the financial assets at fair value through profit or loss	2	—
Provision for impairment of property held for development	(84)	—
	(82)	(4)

7. FINANCE COSTS FROM CONTINUING OPERATIONS

HK\$ million	The Group	
	2014	2013
Interest expenses:		
– Convertible notes	68	187
– Bank borrowings	62	40
– Other borrowing costs	23	7
	153	234
Less: Interest capitalised into investment properties	(70)	(20)
	83	214

The borrowing costs have been capitalised at the weighted average rate of the Group's borrowings at 4.64 per cent per annum in 2014 (2013: 6.14 per cent).

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8. LOSS BEFORE TAXATION FROM CONTINUING OPERATIONS

Loss before taxation from continuing operations is stated after crediting and charging the following:

HK\$ million	The Group	
	2014	2013
Crediting:		
Gross rental income from investment property	2	1
Other rental income	14	14
Less: outgoings	(6)	(6)
Charging:		
Cost of properties sold	—	223
Depreciation	16	19
Staff costs, included in:		
– cost of sales	15	14
– general and administrative expenses	130	148
Contributions to defined contribution retirement schemes	6	7
Shared-based compensation expenses	5	2
Auditor's remuneration	4	5
Operating lease rental of land and buildings, included in:		
– cost of sales	5	6
– general and administrative expenses	43	48
Operating lease rental of equipment	2	2
Provision for impairment of trade receivables	—	7
Net foreign exchange gain	(1)	(1)

9. DIRECTORS' EMOLUMENTS

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

HK\$'000	The Group				The Group			
	2014				2013			
	Directors' fee	Salaries, allowances, other allowances and benefits in kind	Bonuses (note (i))	Retirement scheme contributions	Directors' fee	Salaries, allowances, other allowances and benefits in kind	Bonuses (note (ii))	Retirement scheme contributions
Executive Directors								
Li Tzar Kai, Richard	—	—	—	—	—	—	—	—
Lee Chi Hong, Robert	—	9,172	4,500	963	—	8,093	6,046	850
James Chan	—	5,948	3,700	625	—	5,706	2,698	599
Gan Kim See, Wendy	—	4,115	3,275	625	—	5,706	2,255	599
Lam Yu Yee (note iii)	—	11,096	3,584	898	—	10,661	2,698	870
Independent Non-executive Directors								
Cheung Kin Piu, Valiant	218	—	—	—	218	—	—	—
Prof Wong Yue Chim, Richard, SBS, JP	218	—	—	—	218	—	—	—
Dr. Allan Zeman, GBM, GBS, JP	218	—	—	—	218	—	—	—
	654	30,331	15,059	3,111	654	30,166	13,697	2,918

(i) Refers to bonuses in respect of 2013 and 2014, paid in 2014.

(ii) Refers to bonuses in respect of 2012 and 2013, paid in 2013.

(iii) Resigned as executive director on November 25, 2014. The emoluments shown represents the emoluments received from the Group during the year.

(iv) The total directors' emoluments for the year ended December 31, 2014 were HK\$49 million (2013: HK\$47 million).

NOTES TO THE FINANCIAL STATEMENTS

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9. DIRECTORS' EMOLUMENTS – CONTINUED

b. Share-based compensation

All share options granted to the directors were lapsed in 2013. No share options were granted during the year ended December 31, 2014.

10. FIVE TOP-PAID EMPLOYEES

- a. Of the five highest paid individuals in the Group, four (2013: four) are directors whose emoluments are set out in note 9. Details of the emoluments of the remaining highest paid individual (2013: one) are as follows:

HK\$ million	The Group	
	2014	2013
Salaries and other short-term employee benefits	4	4
Bonuses (note i)	3	2
Retirement scheme contributions	1	—
Share-based compensation expenses	5	2
	13	8

- (i) Bonuses were included in the year of payment.

- b. The emoluments of the remaining individual (2013: one) are within the emolument ranges as set out below:

	The Group Number of individuals	
	2014	2013
HK\$8,000,001 – HK\$8,500,000	—	1
HK\$12,500,001 – HK\$13,000,000	1	—
	1	1

11. INCOME TAX FROM CONTINUING OPERATIONS

Hong Kong profits tax has been provided at the rate of 16.5 per cent (2013: 16.5 per cent) on the estimated assessable profits for the year.

Taxation for Mainland China and overseas subsidiaries have been calculated on the estimated assessable profits for the year at the rates prevailing in the respective jurisdictions.

HK\$ million	The Group	
	2014	2013
Hong Kong profits tax		
– Provision for current year	—	8
Income tax outside Hong Kong		
– Provision for current year	13	9
Deferred income tax		
– Other origination and reversal of temporary differences	8	1
	21	18

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

HK\$ million	The Group	
	2014	2013
Loss before taxation	(420)	(439)
Notional tax on loss before taxation, calculated at 16.5 per cent (2013: 16.5 per cent)	(69)	(72)
Effect of different tax rates of subsidiaries operating outside Hong Kong	2	—
Tax effect of income not subject to taxation	(4)	(1)
Tax effect of expenses not deductible for taxation purposes	68	74
Tax losses for which no deferred income tax asset was recognised	12	9
Utilisation of previously unrecognised tax losses	(2)	(1)
Others	14	9
Income tax	21	18

NOTES TO THE FINANCIAL STATEMENTS

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12. DISCONTINUED OPERATION AND DISPOSAL OF SUBSIDIARIES

On April 8, 2014, the Group entered into a sale and purchase agreement (“SPA”) pursuant to which the Group has agreed to sell the entire issued share capital of Gain Score Limited, an indirectly wholly-owned subsidiary of the Company, and to assign a shareholder loan which was made by the Group to Gain Score Limited to an independent third party for an initial aggregated consideration of US\$928 million (equivalent to approximately HK\$7,201 million), subject to adjustments in accordance with the SPA. The principal assets of Gain Score Limited and its subsidiaries (the “Gain Score Group”) are the land use rights and property rights in the investment property known as “Pacific Century Place, Beijing” located in Mainland China.

The transaction was completed in August 2014, and the final consideration received was US\$939 million (equivalent to approximately HK\$7,281 million) after adjustments in accordance with the SPA.

a. The profit attributable to equity holders of the Company from discontinued operation is as follows:

HK\$ million	2014	2013
Turnover	149	236
Cost of sales	(23)	(36)
Gross profit	126	200
General and administrative expenses	(50)	(108)
Surplus on revaluation of investment property	654	630
Operating profit	730	722
Interest income	6	11
Finance costs	—	(1)
Profit before tax	736	732
Income tax	(194)	(198)
Profit after tax	542	534
Gain on disposal of subsidiaries, net of tax	1,390	—
Profit attributable to equity holders of the Company from discontinued operation	1,932	534

12. DISCONTINUED OPERATION AND DISPOSAL OF SUBSIDIARIES – CONTINUED

b. The net assets of the Gain Score Group at the date of disposal were as follows:

HK\$ million	2014
Net assets disposed of:	
Investment property	7,236
Property, plant and equipment	34
Intangible asset	31
Trade receivables, net	4
Prepayments, deposits and other current assets	11
Amounts due from fellow subsidiaries	1
Restricted cash	5
Cash and cash equivalents	208
Shareholder loan	(1,983)
Accruals, other payables and deferred income	(97)
Current income tax liabilities	(4)
Deferred income tax liabilities	(1,166)
	4,280
Consideration settled by cash	(7,281)
Assignment of shareholder loan	1,983
Tax and direct expenses in relation to the disposal	873
	(145)
Reclassification of currency translation reserve to profit or loss	(1,245)
Gain on disposal of subsidiaries, net of tax	(1,390)

c. Net cash inflow arising from the disposal:

The net cash inflow arising from the disposal is HK\$6,851 million, representing the cash consideration received, net of transaction costs paid and cash and cash equivalents disposed of.

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13. DIVIDEND

HK\$ million	2014	2013
Final dividend	—	—

There was no final dividend paid for 2014 and 2013.

14. EARNINGS PER SHARE

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

	2014	2013
Earnings/(Loss) (HK\$ million)		
Loss from continuing operations	(441)	(457)
Earnings from discontinued operation	1,932	534
Earnings for the purpose of calculating the basic earnings per share and diluted earnings per share	1,491	77
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating the basic earnings per share and diluted earnings per share	1,583,857,214	1,582,775,022

Pursuant to the terms of the applicable deed poll, the bonus convertible notes confer upon the holders the same economic interests attached to the bonus shares. The aggregated amount of HK\$592,553,354.40 (2013: HK\$592,553,354.40) for the outstanding bonus convertible notes which could be converted into 1,185,106,708 (2013: 1,185,106,708) fully paid ordinary shares of HK\$0.50 each is included in the weighted average number of ordinary shares for calculating the basic earnings per share for the years ended December 31, 2014 and December 31, 2013.

14. EARNINGS PER SHARE – CONTINUED

Employee share options of 5,000,000 were exercised during the year ended December 31, 2014. The 432,692 of the potential ordinary shares arising from the assumed conversion of the employee share options are anti-dilutive at the loss from continuing operations level for the year ended December 31, 2013 and so, have been treated as anti-dilutive for the purpose of calculating diluted earnings per share.

2014 Convertible Note was redeemed during the year ended December 31, 2014. The 672,222,222 of the potential ordinary shares arising from the assumed conversion of 2014 Convertible Note have not been included in the calculation of diluted earnings per share for the year ended December 31, 2013 because they are anti-dilutive.

15. INVESTMENT PROPERTIES

HK\$ million	The Group	
	2014	2013
At January 1,	8,519	5,883
Additions	220	2,101
Reclassification (note i)	(115)	—
Surplus on revaluation of investment properties (note ii)	654	630
Disposal of subsidiaries (note 12(b))	(7,236)	—
Exchange differences	(116)	(95)
At December 31,	1,926	8,519

- (i) As at December 31, 2014, value added tax payment of approximately HK\$115 million in relation to the land acquisition was reclassified from investment properties to other non-current receivables after the completion of assessment by the relevant tax authority.
- (ii) The change in unrealised gains of the investment properties in 2014 amounted to HK\$654 million (2013: HK\$630 million) was credited to the consolidated statement of comprehensive income as “Surplus on revaluation of investment properties”. The gain is attributable to the Group’s investment property in Mainland China and is included within discontinued operation (note 12(a)).
- (iii) Direct operating expenses of HK\$23 million (2013: HK\$36 million) that generated rental income was credited to cost of sales and grouped as discontinued operation (note 12(a)) while direct operating expenses of HK\$14 million (2013: HK\$21 million) was related to investment properties that were unlet.

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15. INVESTMENT PROPERTIES – CONTINUED

a. The following tables analyse the investment properties which are carried at fair value. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices that are observable either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for asset or liability that are not based on observable market data (level 3).

HK\$ million	Fair value measurement as at December 31, 2014		
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
The Group			
Recurring fair value measurement			
Investment properties			
– Indonesia	—	—	1,874
– Hong Kong	—	—	52

15. INVESTMENT PROPERTIES – CONTINUED

HK\$ million	Fair value measurement as at December 31, 2013		
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
The Group			
Recurring fair value measurement			
Investment properties			
– Mainland China (note 12)	—	—	6,657
– Indonesia	—	—	1,810
– Hong Kong	—	—	52

Information about level 3 fair value measurements

Investment properties	Valuation technique	As at December 31, 2014	
		Unobservable inputs	Rate
– Indonesia	Residual value approach	Price per net saleable area	US\$ 5,950/sq.m. to US\$ 6,690/sq.m.
		Construction cost	US\$ 1,850/sq.m. to US\$ 2,450/sq.m.
– Hong Kong	Income capitalisation approach	Market yield Monthly gross market rent	4.5% HK\$9.27/sq. ft

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15. INVESTMENT PROPERTIES – CONTINUED

Investment properties	Valuation technique	As at December 31, 2013	
		Unobservable inputs	Rate
– Mainland China	Income capitalisation approach	Market yield Monthly gross market rent	5.5% to 6.0% RMB 200/sq.m. to RMB 890/sq.m.
– Indonesia	Residual value approach	Price per net saleable area Construction cost	US\$ 5,750/sq.m. to US\$ 6,450/sq.m. US\$ 1,300/sq.m. to US\$1,684/sq.m.
– Hong Kong	Income capitalisation approach	Market yield Monthly gross market rent	4.5% HK\$9.27/sq. ft

On July 24, 2013, the Group has completed the acquisition of a plot of land for the development of a Premium Grade A office building in Jakarta, Indonesia. The property located in Indonesia is held by the Group for investment which the construction is in progress. Management has performed the valuation which the fair value of the property is determined by using residual value approach with reference to the sale evidence as available in the market and allowed for the outstanding development costs including mainly construction cost, sales and marketing cost and finance cost. A significant increase/decrease in the price and a significant decrease/increase in construction cost would result in a significant increase/decrease in the fair value of the investment properties. In addition, the exchange rate movement between Indonesian Rupiah and the US dollars could also affect the price and construction costs.

For the investment property in Hong Kong, the usage of this property is constrained by the Group's undertaking to the lessee. Management has performed the valuation which the fair value as at December 31, 2014 is determined by using income capitalisation approach assuming such constraint and current tenancy agreement will continue in its existing manner in the foreseeable future. The valuation takes into account expected market rental and market yield. A significant increase/decrease in the rental and a significant decrease/increase in the market yield would result in a significant increase/decrease in the fair value of the investment properties.

The fair value of investment property located in Mainland China as at December 31, 2013 is determined by an independent professional valuer using income capitalisation approach. The valuation takes into account expected market rental and market yield. Certain furnished equipment and furniture amounted to HK\$38 million as at December 31, 2013 included in the valuation of the investment property is recognised separately as property, plant and equipment. The investment property has been disposed of during the year ended December 31, 2014 (note 12).

15. INVESTMENT PROPERTIES – CONTINUED

b. The carrying amount of investment properties is analysed as follows:

HK\$ million	The Group	
	2014	2013
Held in Mainland China		
On long lease (over 50 years)	—	1,238
On medium-term lease (10-50 years)	—	5,419
Held in Indonesia		
On medium-term lease (10-50 years)	1,874	1,810
Held in Hong Kong		
On long lease (over 50 years)	52	52
	1,926	8,519

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16. PROPERTY, PLANT AND EQUIPMENT

HK\$ million	Freehold land	Buildings and structures	The Group Other plant and equipment	Projects under constructions	Total
At January 1, 2013					
At cost	6	121	299	6	432
Less: Accumulated depreciation	—	(15)	(182)	—	(197)
Net book value	6	106	117	6	235
At December 31, 2013					
Net book value at January 1, 2013	6	106	117	6	235
Additions	—	1	6	—	7
Disposals	—	—	(4)	—	(4)
Depreciation	—	(5)	(35)	—	(40)
Exchange differences	(1)	(20)	(1)	(1)	(23)
Net book value at December 31, 2013	5	82	83	5	175
At January 1, 2014					
At cost	5	99	279	5	388
Less: Accumulated depreciation	—	(17)	(196)	—	(213)
Net book value	5	82	83	5	175
At December 31, 2014					
Net book value at January 1, 2014	5	82	83	5	175
Additions	—	6	13	2	21
Disposals	—	—	(1)	—	(1)
Depreciation	—	(3)	(22)	—	(25)
Disposal of subsidiaries (note 12(b))	—	—	(34)	—	(34)
Exchange differences	(1)	(10)	2	(1)	(10)
Net book value at December 31, 2014	4	75	41	6	126
At December 31, 2014					
At cost	4	93	157	6	260
Less: Accumulated depreciation	—	(18)	(116)	—	(134)
Net book value	4	75	41	6	126

17. PROPERTIES UNDER DEVELOPMENT/HELD FOR DEVELOPMENT

a. Properties under development

HK\$ million	The Group	
	2014	2013
At January 1,	401	490
Additions	2	4
Exchange differences	(51)	(93)
At December 31,	352	401

Properties under development as at December 31, 2014 represents freehold land in Japan which is held by an indirect wholly-owned subsidiary. Management has performed assessments on the recoverable amount of the development project in Japan recognised under properties under development as at December 31, 2014. The valuation is based on the discounted cash flow forecast of the development project which involves the use of various estimates and assumptions such as selling price, construction costs and discount rate. Changes of the assumptions adopted in the valuation may result in a change in future estimates of the recoverable amount of the development project.

b. Properties held for development

HK\$ million	The Group	
	2014	2013
At January 1,	645	678
Additions	6	12
Provision for impairment (note 6)	(84)	—
Exchange differences	(1)	(45)
At December 31,	566	645

Properties held for development as at December 31, 2014 represents freehold land in Thailand, for which the Group intends for future development projects. 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 22).

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17. PROPERTIES UNDER DEVELOPMENT/HELD FOR DEVELOPMENT – CONTINUED

b. Properties held for development – Continued

Same as previous years, management has performed assessments on the recoverable amount of the property interest together with the costs of improvements spent on the land in Thailand recognised under properties held for development, with reference to the advice of an external valuer. The valuation is based on the direct comparison approach which involves the use of various market comparables, estimates and assumptions. Based on the impairment assessment, the recoverable amount as at December 31, 2014 is approximately HK\$566 million and thus a provision for impairment of HK\$84 million was recognised for the year ended December 31, 2014. Changes of the assumptions adopted in the valuation may result in a change in future estimates of the recoverable amount of the development project.

18. INTANGIBLE ASSET

HK\$ million	The Group	
	2014	2013
Costs:		
At January 1,	27	20
Additions	4	6
Disposal of subsidiaries (note 12(b))	(31)	—
Exchange differences	—	1
At December 31,	—	27
Accumulated amortisation:		
At January 1 and December 31,	—	—
Carrying amount:		
At December 31,	—	27

Intangible asset as at December 31, 2013 represents the right for rental collection. It was disposed during the year ended December 31, 2014 upon completion of disposal of Gain Score Group (note 12).

19. GOODWILL

HK\$ million	The Group	
	2014	2013
Costs:		
At January 1,	99	100
Exchange differences	—	(1)
At December 31,	99	99
Accumulated impairment losses:		
At January 1, and December 31,	(96)	(96)
Carrying amount:		
At December 31,	3	3

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

HK\$ million	The Group	
	2014	2013
Other business – property management operations	3	3
At December 31,	3	3

Management has performed assessments on the recoverable amount of the property management operations which are determined based on the cash flow forecast of the business. Management considered there is no impairment of goodwill in relation to the property management operations as at December 31, 2014.

The impairment losses recognised in prior year related to the property development division and ski operation.

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20. OTHER FINANCIAL ASSETS

Financial assets at fair value through profit or loss:

HK\$ million	The Group	
	2014	2013
Listed equity securities, Hong Kong	6	3
Less: Amount classified as current assets	(4)	(2)
	2	1

21. INVESTMENT IN A SUBSIDIARY

HK\$ million	The Company	
	2014	2013
Unlisted shares, at cost	2,870	2,870

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, 2014 were HK\$7,069 million (2013: HK\$7,063 million) and the amount due to a subsidiary as at December 31, 2014 was HK\$4,693 million (2013: HK\$4,693 million).

22. PRINCIPAL SUBSIDIARIES AND ENTITIES CONSOLIDATED INTO THE FINANCIAL STATEMENTS

The following list contains only the particulars of subsidiaries and entities which principally affected the results, assets and liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Company name	Place of incorporation/ operations	Principal activities	Amount of issued capital/ registered capital	Equity interest attributable to the Company	
				Directly	Indirectly
北京裕澤諮詢服務 有限公司 ¹	The People's Republic of China	Property management	US\$100,000	—	100%
City Charm Enterprises Limited	British Virgin Islands	Investment holding	US\$1	—	100%
Cyber-Port Limited 資訊港有限公司	Hong Kong	Property development	HK\$2	—	100%
Dong Si (Holdings) Limited 盈科優質創建有限公司	Hong Kong	Provision of leasing and financing	HK\$1	—	100%
Harmony TMK	Japan	Property development	JPY4,550,000,000 (JPY100,000,000 specified shares and JPY4,450,000,000 preferred shares)	—	100%
Ipswich Holdings Limited	British Virgin Islands	Investment holding	US\$2	100%	—
Island South Property Management Limited 南盈物業管理有限公司	Hong Kong	Property management	HK\$2	—	100%

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22. PRINCIPAL SUBSIDIARIES AND ENTITIES CONSOLIDATED INTO THE FINANCIAL STATEMENTS – CONTINUED

Company name	Place of incorporation/ operations	Principal activities	Amount of issued capital/ registered capital	Equity interest attributable to the Company	
				Directly	Indirectly
Interstate Holdings Limited	Hong Kong	Property development management	HK\$1,850,760,001	—	100%
Kabushiki Kaisha Niseko Management Service	Japan	Property management and travel agency	JPY10,000,000	—	100%
Madeline Investments Limited 盈科大衍地產發展有限公司	Hong Kong	Trademark registrant	HK\$2	—	100%
Melati Holding Limited	British Virgin Islands	Investment holding	US\$93,612	—	100%
Nihon Harmony Resorts KK	Japan	Ski operation	JPY405,000,000	—	100%
PCPD Facilities Management Limited	Hong Kong	Provision of property management services	HK\$2	—	100%
PCPD Services Limited	Hong Kong	Provision of administrative services	HK\$2	—	100%
PCPD Wealth Limited	Hong Kong	Provision of financial services	HK\$1	—	100%
PT Prima Bangun Investama	Indonesia	Property development and management	US\$26,000,000	—	100%

22. PRINCIPAL SUBSIDIARIES AND ENTITIES CONSOLIDATED INTO THE FINANCIAL STATEMENTS – CONTINUED

Company name	Place of incorporation/ operations	Principal activities	Amount of issued capital/ registered capital	Equity interest attributable to the Company	
				Directly	Indirectly
Rafflesia Investment Limited	British Virgin Islands	Investment holding	US\$90,010	—	100%
Talent Master Investments Limited	British Virgin Islands/ Hong Kong	Property development and investment	US\$1	—	100%
Phang-nga Leisure Limited	Thailand	Property holding and leasing	THB2,000,000	—	39%
Phang-nga Paradise Limited	Thailand	Property holding and leasing	THB2,000,000	—	39%

Note:

¹ Represents a wholly foreign owned enterprise.

23. 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 project that are retained in bank accounts opened and maintained by stakeholders. The amount is related to residential portion of Cyberport project and 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\$528 million as at December 31, 2014 (2013: HK\$541 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\$1,022 million as at December 31, 2014 (2013: HK\$1,022 million) held in specific bank accounts. The uses of the funds are specified in the Cyberport Project Agreement.

As at December 31, 2013, the amount of HK\$10 million represents cash balances held in specific interest reserve accounts for bank borrowing purposes. The bank borrowing was repaid during the year ended December 31, 2014 (note 24(b)).

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23. CURRENT ASSETS AND LIABILITIES – CONTINUED

c. Trade receivables, net

HK\$ million	The Group	
	2014	2013
Trade receivables	8	23
Less: Provision for impairment	—	(9)
	8	14

Trade receivables have a normal credit period which ranges up to 30 days from the date of the invoice unless there is separate mutual agreement on extension of the credit period.

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

HK\$ million	The Group	
	2014	2013
Renminbi	2	7
Hong Kong dollar	1	1
Japanese yen	5	6
	8	14

23. CURRENT ASSETS AND LIABILITIES – CONTINUED

c. Trade receivables, net – Continued

(i) Aging analysis

An aging analysis of trade receivables, based on the normal credit period from the invoice date and before allowance for provision for receivable impairment, is set out below:

HK\$ million	The Group	
	2014	2013
Current	7	12
One to three months	—	4
More than three months	1	7
	8	23

(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	
	2014	2013
At January 1,	9	2
Impairment losses recognised	—	7
Disposal of subsidiaries (note 12)	(9)	—
At December 31,	—	9

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23. CURRENT ASSETS AND LIABILITIES – CONTINUED

c. Trade receivables, net – Continued

(iii) Trade receivables of HK\$8 million (2013: HK\$23 million) are exposed to credit risk. No trade receivable was impaired (2013: HK\$9 million impaired) and no provision was made as at December 31, 2014 (2013: HK\$9 million). The other amounts in trade receivables balance relate to a wide range of customers for whom there is no recent history of default.

As at December 31, 2014, trade receivables of HK\$1 million were past due over three months but not impaired (2013: Nil).

d. Trade payables

An aging analysis of trade payables, based on invoice date, is set out below:

HK\$ million	The Group	
	2014	2013
Current	16	12
One to three months	—	3
More than three months	1	1
	17	16

e. Accruals, other payables and deferred income

Accruals, other payables and deferred income represents accruals for construction costs and operating costs, payable for the consideration of the land, retention payables, tenants deposits and deferred income.

24. BORROWINGS

HK\$ million	The Group	
	2014	2013
Repayable within a period		
– not exceeding one year	—	2,844
– over one year, but not exceeding two years	—	1,467
	—	4,311
Representing:		
HK\$2,420 million 2014 Convertible Note due in 2014 (note a)	—	2,844
Bank borrowings (note b)	—	1,467
	—	4,311
Secured	—	1,467
Unsecured	—	2,844

- a. The 2014 Convertible Note in the principal amount of HK\$2,420 million together with 20 per cent redemption premium (in an aggregate amount of HK\$2,904 million) was redeemed by PCPD Wealth Limited (“PCPD Wealth”) (an indirect wholly-owned subsidiary of the Company), the issuer of the 2014 Convertible Note, in full in cash upon its maturity on May 9, 2014 in accordance with the terms and conditions of the 2014 Convertible Note.

PCPD Wealth did not issue the 2019 Convertible Note on May 9, 2014, where the Subscription Agreement dated March 2, 2012 entered into between PCPD Wealth, the Company and PCCW-HKT Partners Limited (an indirect wholly-owned subsidiary of PCCW Limited (“PCCW”)) has lapsed and shall be of no further effect.

Interest expense on the 2014 Convertible Note was calculated using the effective interest method by applying the effective interest rate of 6.87 per cent (2013: 6.87 per cent) to the liability component.

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24. BORROWINGS – CONTINUED

- b. On October 8, 2012, an indirect wholly-owned subsidiary of the Company was granted a three-year term and revolving loan facility with an aggregate limit of HK\$3,000 million (“HKD Facility”). Such facility is secured by the shares and assets of certain indirect wholly-owned subsidiaries. On January 29, 2013 and February 7, 2013, the indirect wholly-owned subsidiary made drawdowns of HK\$200 million and HK\$1,300 million respectively. As at December 31, 2013, the balance of HK\$1,467 million represented the total loan drawdown of HK\$1,500 million and net off by the professional fees and upfront fees of HK\$33 million. The loans under such HKD Facility have been fully repaid upon the completion of the disposal of the Gain Score Group in August 2014.
- c. On October 8, 2012, an indirect wholly-owned subsidiary of the Company entered into a RMB facility agreement under which the lender has agreed to make available a three-year term loan facility up to an aggregate amount of RMB100 million (“RMB Facility”). The RMB Facility is a fixed asset loan, which shall be used towards the construction costs, and any other costs and expenses in connection with refurbishment, redecoration or maintenance or any other improvements of the assets owned by the indirect wholly-owned subsidiary. The RMB Facility is secured by the assets owned by the indirect wholly-owned subsidiary. No drawdown was made by the Group as at December 31, 2013. Upon the completion of the disposal of the Gain Score Group, the RMB Facility has been cancelled.
- d. On January 21, 2014, indirect wholly-owned subsidiaries of the Company entered into USD facilities agreements (“USD Facility”) under which the lender would make available term loan facilities in an aggregate amount of US\$200 million, comprising a term loan facility for US\$140 million (“USD Facility A”) and a term loan facility for US\$60 million (“USD Facility B”), for financing the development of a Premium Grade A office building in Indonesia. The USD Facility must be repaid on or before six months after the completion of the building or December 31, 2017, whichever is earlier. The USD Facility are secured by the shares and assets of the indirect wholly-owned subsidiaries and one of the indirectly wholly-owned subsidiaries is subjected to certain financial ratios covenants which are commonly found in lending arrangements with financial institutions. As at December 31, 2014, none of the covenants were breached. The USD Facility is available for drawdown as the conditions precedent have been fulfilled, but up to December 31, 2014 no drawdown has yet been made by the Group.

25. 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
At January 1, 2014	516	5	521
Addition to amount payable	1	—	1
At December 31, 2014	517	5	522

HK\$ million	The Group		
	Government share under the Cyberport Project Agreement (note a)	Others	Total
At January 1, 2013	954	5	959
Addition to amount payable	8	—	8
Settlement during the year	(446)	—	(446)
At December 31, 2013	516	5	521

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25. AMOUNT PAYABLE TO THE HKSAR GOVERNMENT UNDER THE CYBERPORT PROJECT AGREEMENT – CONTINUED

- a. Pursuant to the 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.

Pursuant to the Cyberport Project Agreement, 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 considered as a part of the development costs for the Cyberport project. The amount payable to the HKSAR Government is based on sales proceeds of the residential portion of the project and the estimated development costs of the Cyberport project.

26. ISSUED EQUITY

	The Group	
	Number of shares	Issued equity
	(note a)	HK\$ million
	(note a)	(note a)
Ordinary shares of HK\$0.50 each at January 1, 2013	397,666,713	2,836
Conversion of bonus convertible notes (note d)	1,600	—
Ordinary shares of HK\$0.50 each at December 31, 2013	397,668,313	2,836
Shares issued upon exercise of share options (note e)	5,000,000	12
Ordinary shares of HK\$0.50 each at December 31, 2014 (note f)	402,668,313	2,848

- 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 subsidiary, Ipswich Holdings Limited, at the 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 parent Company, Pacific Century Premium Developments Limited, for all accounting periods presented.

26. ISSUED EQUITY – CONTINUED

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\$0.50 each at December 31, 2013 and December 31, 2014	4,000,000,000	2,000
Issued and fully paid:		
Ordinary shares of HK\$0.50 each at January 1, 2013	397,666,713	199
Conversion of bonus convertible notes (note d)	1,600	—
Ordinary shares of HK\$0.50 each at December 31, 2013	397,668,313	199
Shares issued upon exercise of share options (note e)	5,000,000	2
Ordinary shares of HK\$0.50 each at December 31, 2014 (note f)	402,668,313	201

c. Pursuant to an ordinary resolution passed at the special general meeting of the Company held on May 2, 2012 and the announcements dated May 16, 2012 and June 21, 2012 in relation to the bonus issue of shares (with a right for shareholders to elect to receive bonus convertible notes in lieu of bonus shares), 405,378,544 bonus shares of HK\$0.10 each were allotted and issued on June 22, 2012 on the basis of four (4) bonus shares for every one (1) issued share held by the qualifying shareholders of the Company whose names appeared on the register of members of the Company on May 30, 2012 (other than those qualifying shareholders who had elected to receive bonus convertible notes in lieu of all of their entitlement to the bonus shares).

Bonus convertible notes of HK\$592,572,154.40 at the conversion price of HK\$0.10 per share were issued by the Company on June 22, 2012. Immediately after the share consolidation which took effect on June 25, 2012, the conversion price of the bonus convertible notes was adjusted from HK\$0.10 per share to HK\$0.50 per share pursuant to the terms of the applicable deed poll.

The bonus convertible notes are unlisted and irredeemable but have conversion rights entitling the noteholders to convert into an equivalent number of shares as the number of bonus shares which the noteholders would otherwise be entitled to receive under the bonus issue had the shareholder not elected for the bonus convertible notes. The bonus convertible notes do not carry voting rights at any general meeting of shareholders of the Company. The noteholders can exercise the conversion rights at any time after the issue of bonus convertible notes, subject to the terms and conditions of the applicable deed poll constituting the bonus convertible notes. The bonus convertible notes were recognised as equity and are presented in “Convertible notes reserve”.

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26. ISSUED EQUITY – CONTINUED

- d. During the year ended December 31, 2013, bonus convertible notes in the amount of HK\$800 were exercised and converted into 1,600 ordinary shares.
- e. During the year ended December 31, 2014, 5,000,000 share options in the amount of HK\$11,875,000 were exercised at the price of HK\$2.375 per share and 5,000,000 shares were issued.
- f. As at December 31, 2014, the number of the total issued and fully paid consolidated ordinary shares of HK\$0.50 each was 402,668,313.2. Fractional shares amounted to 1.2 ordinary shares of HK\$0.50 each were generated from the share consolidation on June 25, 2012 and are retained by the Company in accordance with the terms of the share consolidation. Such fractional shares are registered under the name of an indirect wholly-owned subsidiary of the Company. Amongst such 1.2 fractional shares, 0.2 shares are not tradable on the main board of The Stock Exchange of Hong Kong Limited and such 0.2 shares are not shown in this section.

27. EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement schemes

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 maximum contribution of HK\$1,500 per month. Contributions to the scheme vest immediately upon the completion of the service in the relevant service period.

28. SHARE-BASED PAYMENT TRANSACTIONS

a. 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). The maximum entitlement of any eligible person (other than a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates) under the 2005 Scheme is the total number of shares issued and to be issued on exercise of all options granted and to be granted in any 12-month period up to and including the date of the latest grant up to a maximum of 1 per cent of the shares of the Company in issue at the relevant time. Any further grant of share options in excess of this limit is subject to shareholders’ approval at a general meeting.

The 2005 Scheme will expire on May 22, 2015 and an ordinary resolution will be proposed at the forthcoming annual general meeting to approve the termination of the 2005 Scheme and the adoption of a new scheme. Following the termination of the 2005 Scheme, no further share option will be granted under such scheme, and the provisions of the 2005 Scheme will remain in full force and effect in all other aspects.

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28. SHARE-BASED PAYMENT TRANSACTIONS – CONTINUED

a. 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, 2014, are as follows:

(i) Movements in share options

	Number of options	
	2014	2013
At January 1,	5,000,000	5,000,000
Exercised	(5,000,000)	—
At December 31,	—	5,000,000
Options vested at December 31,	—	5,000,000

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

Date of grant	Exercise period	Exercise price HK\$	2014		2013	
			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

During the years ended December 31, 2014 and December 31, 2013, no share options were granted under the 2005 Scheme or 2003 share option scheme. 5,000,000 share options granted related to 2003 share option scheme were exercised during the year ended December 31, 2014.

28. SHARE-BASED PAYMENT TRANSACTIONS – CONTINUED

a. Share option scheme – Continued

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

	2014		2013	
	Average exercise price in HK\$ per share	Number of options	Average exercise price in HK\$ per share	Number of options
At January 1,	2.375	5,000,000	2.375	5,000,000
Exercised	2.375	(5,000,000)	—	—
December 31,	—	—	2.375	5,000,000

The weighted average share price at the date of exercise for share options exercised during the year was HK\$3.56.

The fair value of the share options granted 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".

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DECEMBER 31, 2014 (Amount expressed in Hong Kong dollars unless otherwise stated)

28. SHARE-BASED PAYMENT TRANSACTIONS – CONTINUED

b. Share award scheme

PCCW established two employee share incentive award schemes under which awards of shares may be granted to employees of participating subsidiaries. The Group is a participating member of the PCCW employee share incentive award schemes. Under both schemes, following the making of an award to an employee, the relevant shares are held on trust for the employee and then vest over a period of time provided that he/she remains employee of the Group at the relevant time and satisfies any other conditions specified at the time the award is made.

Details of the accounting policies for the shares granted to the employees of the Group are described in note 2 (w)(iv). Since PCCW shares were purchased, the Group recognised it as a cash-settled share-based payment transaction.

A summary of movements in PCCW shares held under the share award scheme that is attributable to the Group during the year is as follows:

	Number of PCCW shares	
	2014	2013
At January 1,	952,793	673,000
Purchased from market by the trustee at average market price of HK\$4.20 per PCCW Share (2013: HK\$3.76)	855,000	616,000
Vested	(644,243)	(336,207)
At December 31,	1,163,550	952,793

28. SHARE-BASED PAYMENT TRANSACTIONS – CONTINUED

b. Share award scheme – Continued

Details of PCCW Shares awarded pursuant to the Purchase Scheme during the year and the PCCW Shares unvested, are as follows:

- (i) Movements in the number of unvested PCCW Shares and their related weighted average fair value on the date of award

	2014		2013	
	Weighted average fair value on date of award HK\$	Number of PCCW Shares	Weighted average fair value on date of award HK\$	Number of PCCW Shares
At January 1	3.75	952,279	2.97	672,414
Awarded (note (iii))	3.99	854,611	4.17	616,072
Vested	3.54	(644,243)	2.97	(336,207)
At December 31, (note (ii))	4.04	1,162,647	3.75	952,279

- (ii) Details of unvested PCCW Shares as at December 31,

Date of award	Vesting period	Fair value on the date of award HK\$	Number of PCCW shares	
			2014	2013
June 15, 2012	June 15, 2012 to June 15, 2014	2.97	—	336,207
May 10, 2013	May 10, 2013 to May 10, 2014	4.17	—	308,036
May 10, 2013	May 10, 2013 to May 10, 2015	4.17	308,036	308,036
April 11, 2014	April 11, 2014 to April 11, 2015	3.99	427,305	—
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	427,306	—
			1,162,647	952,279

The PCCW Shares unvested at December 31, 2014 had a weighted average remaining vesting period of 0.67 years (2013: 0.71 years).

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28. SHARE-BASED PAYMENT TRANSACTIONS – CONTINUED

b. Share award scheme – Continued

(iii) Details of PCCW Shares awarded during the year

Date of award	Vesting period	Fair value on the date of award HK\$	Number of PCCW shares	
			2014	2013
May 10, 2013	May 10, 2013 to May 10, 2014	4.17	—	308,036
May 10, 2013	May 10, 2013 to May 10, 2015	4.17	—	308,036
April 11, 2014	April 11, 2014 to April 11, 2015	3.99	427,305	—
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	427,306	—
			854,611	616,072

c. Share-based payment transactions with cash alternatives

(i) On May 23, 2013, the Group entered into the Supporting Agreement with an affiliated company of the seller of a plot of land in Jakarta, Indonesia (the “Supporter”) under which the Group will settle part of the supporting services received for the value of US\$23 million (subject to certain downward adjustments) by means of issuing shares that represent 6.388 per cent of the share capital in an indirect wholly-owned subsidiary (“Melati”) (“Supporter Shares”) and by assignment of the shareholder’s loan to Melati (“Supporter Shareholder’s Loans”).

In addition, the Group granted to the Supporter a right (but not an obligation) to require the Group, after the expiry of 5 years from the date on which the Supporter Shares are issued and the Supporter Shareholder’s Loans assigned, to purchase from the Supporter all (but not part) of the Supporter Shares and to take assignment of all the then outstanding Supporter Shareholder’s Loans (“Supporter Put Option”). The Supporter Put Option is granted at no premium.

When the consolidated net asset value of Melati is positive, Supporter Shareholder’s Loans are to be assigned at the face amount and the Supporter Shares are to be issued at its corresponding portion of the consolidated net asset value of Melati; or when the consolidated net asset value of Melati is negative, the Supporter Shareholder’s Loans are to be assigned at the face amount after deduction of the absolute value of the corresponding portion of the consolidated net asset value of Melati, and the Supporter Shares are to be issued at nominal value of US\$1.

Management considered that the fair value of the Supporter Shares is positively correlated to the consolidated net asset value of Melati which is minimal as at December 31, 2014, therefore the fair value of the Supporter Shares is nil (2013: nil).

28. SHARE-BASED PAYMENT TRANSACTIONS – CONTINUED

c. Share-based payment transactions with cash alternatives – Continued

- (ii) On May 23, 2013, the Group entered into the Investor Subscription Agreement and the Investor Loan Purchase Agreement with an independent third party (the “Investor”), the Group will allot to the Investor 9.99 per cent shares of an indirect wholly-owned subsidiary (“Rafflesia”) (“Investor Shares”) and assign to the Investor 9.99 per cent of all the unsecured and non-interest bearing shareholder’s loan to Rafflesia (“Investor Shareholder’s Loans”) at the time when the occupation permit of the Premium Grade A office building in Jakarta, Indonesia is issued. This arrangement will allow the Investor to have 9.99 per cent of the Group’s Indonesian development project at a consideration of an amount which represents the same percentage (9.99 per cent) of the total investment cost incurred by the Group in the Indonesian development project plus finance charge from the completion date of the land acquisition to the time the shares are subscribed.

In addition, the Group granted to the Investor a right (but not an obligation) to require the Group, at any time on or after May 23, 2023, to purchase from the Investor all (but not part) of the Investor Shares and to take assignment of all the then outstanding Investor Shareholder’s Loans (“Investor Put Option”). The Investor Put Option enables a structure which allows the Investor to realise its investment and prevents unknown parties from becoming a stakeholder in Rafflesia, so far as practicable. The Investor Put Option is granted at no premium.

When the consolidated net asset value of Rafflesia is positive, Investor Shareholder’s Loans are to be assigned at the face amount and the Investor Shares are to be issued at its corresponding portion of the consolidated net asset value of Rafflesia; or when the consolidated net asset value of Rafflesia is negative, the Investor Shareholder’s Loans are to be assigned at the face amount after deduction of the absolute value of the corresponding portion of the consolidated net asset value of Rafflesia (in case of any shortfall after the deduction), Investor is required to settle the shortfall, and the Investor Shares are to be issued at nominal value of US\$1.

Management considered the fair value of the Investor Shares is positively correlated to the consolidated net asset value of Rafflesia which is minimal as at December 31, 2014, therefore the fair value of the Investor Shares is nil (2013: nil).

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014 (Amount expressed in Hong Kong dollars unless otherwise stated)

29. RESERVES

HK\$ million	The Company					
	2014					
	Share premium	Capital redemption reserve	Convertible notes reserve	Employee share-based compensation reserve	Retained earnings	Total
Balance at January 1, 2014	2,439	1	1,361	—	1,238	5,039
Total comprehensive loss for the year	—	—	—	—	(4)	(4)
Redemption of 2014 Convertible Note (note 24(a))	—	—	(769)	—	769	—
Exercise of share options	10	—	—	—	—	10
Balance at December 31, 2014	2,449	1	592	—	2,003	5,045

HK\$ million	The Company					
	2013					
	Share premium	Capital redemption reserve	Convertible notes reserve	Employee share-based compensation reserve	Retained earnings	Total
Balance at January 1, 2013	2,439	1	1,361	17	1,226	5,044
Total comprehensive loss for the year	—	—	—	—	(5)	(5)
Reclassification due to expiry of share options	—	—	—	(17)	17	—
Balance at December 31, 2013	2,439	1	1,361	—	1,238	5,039

30. 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, 2013	421	382	(7)	796
Charged to the consolidated income statement	34	158	3	195
Exchange differences	13	13	(2)	24
At December 31, 2013	468	553	(6)	1,015
At January 1, 2014	468	553	(6)	1,015
Charged to the consolidated income statement	20	163	6	189
Disposal of subsidiaries (note 12(b))	(480)	(705)	19	(1,166)
Exchange differences	(6)	(6)	—	(12)
At December 31, 2014	2	5	19	26

HK\$ million	The Group	
	2014	2013
Deferred income tax liabilities recognised in the consolidated balance sheet	26	1,034
Less: Amount of deferred income tax assets netted off against deferred income tax liabilities recognised in the consolidated balance sheet	—	(19)
At December 31,	26	1,015

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30. DEFERRED INCOME TAX – CONTINUED

b. The analysis of deferred income tax liabilities is as follows:

HK\$ million	The Group	
	2014	2013
Deferred income tax liabilities:		
– to be recovered after more than 12 months	26	1,015
– to be recovered within 12 months	—	—
	26	1,015

c. The Group has unrecognised estimated tax losses of HK\$385 million as at December 31, 2014 (2013: HK\$441 million) to be carried forward for deduction against future taxable profits. HK\$178 million (2013: HK\$266 million) tax losses relating to subsidiaries operating outside Hong Kong would be expired within one to nine years from December 31, 2014 (2013: one to nine years), the remaining HK\$207 million (2013: HK\$175 million) tax losses are mainly relating to Hong Kong companies which can be carried forward indefinitely.

31. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS FROM CONTINUING OPERATIONS

Reconciliation of loss before taxation to net cash used in operating activities

HK\$ million	The Group	
	2014	2013
Loss before taxation	(420)	(439)
Adjustments for:		
– interest income	(12)	(7)
– finance costs	83	214
– depreciation	16	19
– provision for impairment of property held for development	84	—
– fair value (gain)/loss on the derivative financial instrument	(2)	4
– foreign exchange differences	(1)	—
Operating loss before changes in working capital	(252)	(209)

31. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS FROM CONTINUING OPERATIONS – CONTINUED

Reconciliation of profit before taxation to net cash used in operating activities – Continued

HK\$ million	The Group	
	2014	2013
(Increase)/Decrease in operating assets:		
– properties under development	(2)	212
– properties held for development	(6)	(12)
– other financial assets	(1)	(1)
– other non-current receivables	(39)	—
– prepayments, deposits and other current assets	4	6
– sales proceeds held in stakeholders' accounts	13	137
– restricted cash	10	287
– trade receivables, net	2	5
– amounts due from fellow subsidiaries	2	(1)
– amounts due from related companies	8	(9)
Increase/(Decrease) in operating liabilities:		
– trade payables, accruals, other payables and deferred income	11	(32)
– deposits received on sales of properties	—	(28)
– amounts due to fellow subsidiaries	(3)	(9)
– amount payable to the HKSAR Government under the Cyberport Project Agreement	1	(438)
– other non-current payables	5	—
Cash used in operations	(247)	(92)
Interest received	12	7
Tax (paid)/refunded		
– in Hong Kong	(4)	1
– outside Hong Kong	(10)	(5)
Net cash used in operating activities	(249)	(89)

NOTES TO THE FINANCIAL STATEMENTS

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32. COMMITMENTS

a. Capital

HK\$ million	The Group	
	2014	2013
Authorised and contracted for	1,431	156
Authorised but not contracted for	334	31
	1,765	187

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

HK\$ million	The Group	
	2014	2013
Property development projects	47	49
Intangible asset	—	23
Investment properties	1,679	114
Property, plant and equipment	39	1
	1,765	187

Capital commitment of HK\$43 million as at December 31, 2013 related to the Gain Score Group which was disposed of during the year ended December 31, 2014.

32. COMMITMENTS – CONTINUED

b. Operating leases

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

Land and buildings (as lessee)

HK\$ million	The Group	
	2014	2013
Within one year	48	41
After one year but within five years	64	42
	112	83

The leases typically run for an initial period of one to six years (2013: one to six years). One of these leases include contingent rental (2013: one).

Equipment (as lessee)

HK\$ million	The Group	
	2014	2013
Within one year	1	1
After one year but within five years	1	2
	2	3

The leases typically run for an initial period of three months to five years (2013: one to four years). None of these leases include contingent rentals (2013: none).

NOTES TO THE FINANCIAL STATEMENTS

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32. COMMITMENTS – CONTINUED

b. Operating leases – Continued

- (ii) The Group leases out properties under operating leases. The leases typically run for an initial period of three to ten years (2013: one to fifteen years). One (2013: seven) of the leases include contingent rentals with reference to the turnover of the lessees' operations. The decrease of operating lease receivable as at December 31, 2014 as compared to December 31, 2013 was due to the disposal of subsidiaries which held an investment property in Beijing (note 12).

As at December 31, the total future minimum lease receivables under non-cancellable operating leases are as follows:

Land and buildings (as lessor)

HK\$ million	The Group	
	2014	2013
Within one year	15	222
After one year but within five years	29	316
After five years	—	16
	44	554

33. CONTINGENT LIABILITIES

Save as disclosed elsewhere in the consolidated financial statements, contingent liabilities and the guarantees provided by the Group and the Company are set out as follows:

On January 21, 2014, the Company and an indirect wholly-owned subsidiary had executed guarantees in favour of the lenders of the USD Facility, in the principal amount of US\$200 million granted to the indirect wholly-owned subsidiaries (note 24(d)).

34. BANKING FACILITY

Aggregate banking facilities as at December 31, 2014 were HK\$1,552 million (2013: HK\$3,128 million) of which the unused facilities amounted to HK\$1,552 million (2013: HK\$1,628 million). Summary of major borrowings is set out in note 24.

Securities pledged for certain banking facilities and bank guarantee include:

HK\$ million	The Group	
	2014	2013
Investment properties	1,874	6,657
Prepayments, deposits and other current assets	182	—
Cash & cash equivalents	20	—
Restricted cash	—	10
Short-term deposits	—	5
	2,076	6,672

- (i) Performance guarantee of approximately HK\$166 million in relation to the construction of office building in Jakarta, Indonesia was pledged for the banking facilities as at December 31, 2014.

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35. MATERIAL RELATED PARTY TRANSACTIONS

The Group is controlled by PCCW which owns 70.80 per cent (2013: 74.50 per cent) of the Company's shares. The remaining 29.20 per cent (2013: 25.50 per cent) of the shares are held by public as at December 31, 2014.

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	
	2014	2013
Sales of services:		
– Fellow subsidiaries		
Office leases rental	14	16
Other services	—	1
– Related companies		
Facility management services	27	25
Office leases rental	1	1
Other services	1	—
Sales of property, plant & equipment:		
– Fellow subsidiary	1	—
Purchases of services:		
– Fellow subsidiaries		
Corporate services	6	5
Office sub-leases	—	2
Information technology and other logistic services	5	3
Purchases of property, plant & equipment:		
– Fellow subsidiary	1	—

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.

35. MATERIAL RELATED PARTY TRANSACTIONS – CONTINUED

b. Details of key management compensation

HK\$ million	The Group	
	2014	2013
Salaries and other short-term employee benefits	30	30
Bonuses	15	13
Directors' fee	1	1
Post-employment benefits	3	3
	49	47

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

HK\$ million	The Group	
	2014	2013
Receivables from related parties:		
– Fellow subsidiaries	1	4
– Related companies	3	11
	4	15
Payables to related parties:		
– Fellow subsidiaries	2	5

NOTES TO THE FINANCIAL STATEMENTS

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35. MATERIAL RELATED PARTY TRANSACTIONS – CONTINUED

d. Loan from a fellow subsidiary

The loan from a fellow subsidiary represented the face value of the 2014 Convertible Note with principal value of HK\$2,420 million (note 24(a)). The movements of the face value of the loan from a fellow subsidiary during the year are as follows:

HK\$ million	The Group	
	2014	2013
At January 1,	2,887	2,839
Interest expenses	8	24
Interest paid	(8)	(24)
Provision for redemption premium	17	48
Redemption of 2014 Convertible Note	(2,904)	—
At December 31,	—	2,887

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.

36. FINANCIAL RISK MANAGEMENT – CONTINUED

a. Foreign exchange risk

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

HK\$ million	The Group					
	2014			2013		
	USD	Japanese yen	Thai baht	USD	Japanese yen	Thai baht
Cash and cash equivalents	2,170	1	—	247	1	1

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 and US dollars. 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.

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

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36. FINANCIAL RISK MANAGEMENT – CONTINUED

a. Foreign exchange risk – Continued

Sensitivity analysis for foreign currency exposure

A five (5) per cent appreciation of Hong Kong dollar against the following currencies at December 31, 2014 would have decreased in profit after tax and equity by the amounts shown below. This represents the translation of financial assets and liabilities 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 2013.

HK\$ million	The Group			
	2014		2013	
	Decrease in profit after tax	Decrease in other comprehensive income for currency translation	Decrease in profit after tax	Decrease in other comprehensive income for currency translation
US dollar	(108)	—	(12)	—
Renminbi	—	(1)	—	(308)
Thai baht	—	(32)	—	(32)
Japanese yen	—	(24)	—	(26)
Indonesian rupiah	—	(78)	—	(49)

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 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, certain customers are fellow subsidiaries and related parties which the credit risk is relatively low and other individual customers are with good repayment history.

As at December 31, 2014, the Group has a certain concentration of credit risk as 70 per cent (2013: 30 per cent) of the total trade receivables was due from three customers.

36. FINANCIAL RISK MANAGEMENT – CONTINUED

b. Credit risk – Continued

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

Cash and cash equivalents

HK\$ million	The Group	
	2014	2013
Aa1	982	—
Aa2	22	29
Aa3	25	144
A1	259	267
A2	946	349
A3	194	—
Baa1	4	3
Baa2	—	52
Unrated	34	22
	2,466	866

Short-term deposits

HK\$ million	The Group	
	2014	2013
Baa2	—	10
	—	10

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014 (Amount expressed in Hong Kong dollars unless otherwise stated)

36. FINANCIAL RISK MANAGEMENT – CONTINUED

b. Credit risk – Continued

Restricted cash

HK\$ million	The Group	
	2014	2013
Aa2	1,022	1,022
Aa3	—	10
	1,022	1,032

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 date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

HK\$ million	Within 1 year or on demand	More than 1 year but within 2 years	The Group More than 2 years but within 5 years	More than 5 years	Total contractual undiscounted cash flow	Carrying Amount
At December 31, 2014						
Trade payables	17	—	—	—	17	17
Accruals and other payables	547	—	—	—	547	547
Amounts due to fellow subsidiaries	2	—	—	—	2	2
Amount payable to the HKSAR						
Government under the Cyberport Project Agreement	522	—	—	—	522	522
Other non-current payables	—	4	178	—	182	161
At December 31, 2013						
Trade payables	16	—	—	—	16	16
Accruals and other payables	503	—	—	—	503	503
Amounts due to fellow subsidiaries	5	—	—	—	5	5
Amount payable to the HKSAR						
Government under the Cyberport Project Agreement	521	—	—	—	521	521
Other non-current payables	—	313	—	178	491	450
Long-term borrowings	2,913	1,500	—	—	4,413	4,311

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014 (Amount expressed in Hong Kong dollars unless otherwise stated)

36. FINANCIAL RISK MANAGEMENT – CONTINUED

d. Interest rate risks

Apart from the cash and cash equivalents which are for working capital, the Group has no significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group has an undrawn loan facility of US\$200 million (note 24(d)) as at December 31, 2014.

The following table details the interest rate profile of the Group's borrowings.

	The Group			
	2014		2013	
	Effective interest rate	HK\$ million	Effective interest rate	HK\$ million
Fixed rate borrowings:				
Loan from a fellow subsidiary (note 35(d))	—	—	6.87%	2,887
Variable rate borrowings:				
Bank borrowings (note 24(b))	—	—	3.02%	1,500
Total borrowings		—		4,387

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.

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 and bank loan less cash and cash equivalents. Adjusted capital comprises the issued equity and retained earnings.

37. CAPITAL MANAGEMENT – CONTINUED

The debt-to-adjusted capital ratio is not applicable at December 31, 2014 after all the borrowings were redeemed or repaid during the year (note 24). The debt-to-adjusted capital ratios at both December 31, 2014 and December 31, 2013 are as follows:

HK\$ million	The Group	
	2014	2013
Loan from a fellow subsidiary (note 35(d))	—	2,887
Bank borrowings	—	1,500
Less: Cash and cash equivalents	(2,466)	(866)
Net debt	(2,466)	3,521
Issued equity	2,848	2,836
Add: Retained earnings	3,115	855
Adjusted capital	5,963	3,691
Debt-to-adjusted capital ratio	—	95%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements, except for the financial covenant requirements under the loan facilities agreements with external parties (note 24).

38. FAIR VALUE ESTIMATION

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices that are observable either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for asset or liability that are not based on observable market data (level 3).

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014 (Amount expressed in Hong Kong dollars unless otherwise stated)

38. FAIR VALUE ESTIMATION – CONTINUED

The following table analyses the Group's financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value treatment is categorised. See note 15 for disclosure of the investment properties that are measured at fair value.

HK\$ million	The Group			Total
	Level 1	Level 2	Level 3	
	2014			
Recurring fair value measurements				
Assets				
Other financial assets	6	—	—	6

HK\$ million	The Group			Total
	Level 1	Level 2	Level 3	
	2013			
Recurring fair value measurements				
Assets				
Other financial assets	3	—	—	3

During the years ended December 31, 2014 and December 31, 2013, there were no transfers of financial instruments between different levels.

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily listed equity investments classified as other financial assets.

38. FAIR VALUE ESTIMATION – CONTINUED

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

FIVE-YEAR FINANCIAL SUMMARY

(Expressed in Hong Kong dollars)

Results

HK\$ million	2014	2013	2012	2011	2010
<i>Turnover by Principal Activities</i>					
Property development	—	283	791	1,710	1,100
Property investment	151	237	240	262	216
All season recreational activities	77	72	78	84	77
Other businesses	87	82	75	70	102
	315	674	1,184	2,126	1,495
Operating profit	381	490	399	328	1,409
Gain on disposal of subsidiaries, net of tax	1,390	—	—	—	—
Finance costs, net	(65)	(197)	(167)	(135)	(158)
Profit before taxation	1,706	293	232	193	1,251
Income tax	(215)	(216)	(165)	(131)	(387)
Profit attributable to equity holders of the Company	1,491	77	67	62	864

Assets and Liabilities, as at December 31,

HK\$ million	2014	2013	2012	2011	2010
Total non-current assets	3,129	9,773	7,317	6,897	6,426
Total current assets	4,368	2,564	3,208	4,789	6,218
Total current liabilities	(1,748)	(3,906)	(1,377)	(1,345)	(2,814)
Net current assets/(liabilities)	2,620	(1,342)	1,831	3,444	3,404
Total assets less current liabilities	5,749	8,431	9,148	10,341	9,830
Total non-current liabilities	(187)	(2,932)	(3,454)	(3,174)	(2,965)
Net assets	5,562	5,499	5,694	7,167	6,865

SCHEDULE OF PRINCIPAL PROPERTIES

Address	Intended use	Stage of completion	Expected date of completion	Gross site area (sq.m.)	Gross floor area (sq.m.)
1 Major properties under development					
Japan					
328-1 Aza Iwaobetsu, Kutchan-cho, Abuta-gun, Hokkaido, Japan	Commercial and residential	Design phase	N/A	788,510	619,705

Address	Gross site area (sq.m.)	Category of the lease*
2 Major properties held for development		
Thailand		
Moo 3 & 9, Thai Muang Subdistrict, Thai Muang District Phang-nga, 82120 Thailand	1,700,465	Long

Address	Intended use	Stage of completion	Expected date of completion	Gross site area (sq.m.)	Approximate gross floor area (sq.m.)	Percentage held by the Group
3 Major properties held for investment						
Indonesia						
Jenderal Sudirman Kav. No. 52-53 Lot 10 Senayan, Kebayoran Baru South Jakarta, Indonesia	Commercial	Excavation for basement	2017	9,277	90,500	100%

* Lease term:
Long term: Lease not less than 50 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*)

Lee Chi Hong, Robert

(*Deputy Chairman and Chief Executive Officer*)

James Chan

Gan Kim See, Wendy

Independent Non-Executive Directors

Cheung Kin Piu, Valiant

Prof Wong Yue Chim, Richard, SBS, JP

Dr Allan Zeman, GBM, GBS, JP

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Tsang Sai Chung

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