

# REPORT OF THE DIRECTORS

The directors hereby present to the shareholders the annual report and the audited consolidated financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) for the year ended March 31, 2004.

## CHANGE OF COMPANY NAME AND ADOPTION OF CHINESE NAME

A special resolution was passed by the shareholders of the Company at the special general meeting of the Company held on April 28, 2004 to approve the change of the Company’s name from Dong Fang Gas Holdings Limited to Pacific Century Premium Developments Limited, which took effect on May 10, 2004.

The Company has adopted “盈科大衍地產發展有限公司” as its Chinese name for the purpose of identification with effect from May 24, 2004.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries and associates are set out in notes 16 and 17 to the financial statements respectively.

## MAJOR TRANSACTIONS

On March 5, 2004, PCCW Limited (“PCCW”, a Hong Kong company whose shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)) and the Company jointly announced that the Company has conditionally agreed to purchase:

- (i) the entire issued share capital of Ipswich Holdings Limited and its subsidiaries (the “Property Group”), being the group of companies holding Pacific Century Place Beijing located in the People’s Republic of China (the “PRC”), PCCW Tower located in Hong Kong, other investment properties and related property and facilities management companies of PCCW and its subsidiaries (“PCCW Group”) and includes Cyber-Port Limited (the developer of the Cyberport Project); and
- (ii) the property situated at Ko Shing Street and Wo Fung Street, Western, Hong Kong and approximately HK\$3,529 million in aggregate of interest-bearing loans owing by the relevant members of the Property Group to PCCW.

The aggregate consideration of approximately HK\$6,557 million was satisfied:

- (i) as to HK\$2,967 million, by the allotment and issue of approximately 1,648 million new shares of par value of HK\$0.10 each by the Company, immediately following the capital reorganisation (including a 10:1 share consolidation) becoming unconditional and effective, to PCCW (or as it may direct) credited as fully paid at an issue price of HK\$1.80 per new share; and
- (ii) as to the remaining HK\$3,590 million, by the issue of the convertible notes by the Company to PCCW (or as it may direct).

The Company also carried out the following capital reorganisation:

- (i) every issued share of HK\$0.40 was reduced in value by cancelling HK\$0.39 per share and the cancellation of each unissued share (“Capital Reduction”);
- (ii) every 10 shares of HK\$0.01 each of the Company were consolidated into one share of HK\$0.10 each;
- (iii) an amount of approximately HK\$47.14 million standing to the credit of the share premium account of the Company was cancelled (“Share Premium Cancellation”);
- (iv) the aggregate amount of the credit balance of the share premium account of the Company and the credit arising from the Capital Reduction and the Share Premium Cancellation in the amount of approximately HK\$500.03 million, was transferred to the contributed surplus account of the Company. That credit was used to set off against the accumulated losses of the Company; and
- (v) increased the authorised share capital from HK\$11,612,654 to HK\$1,000,000,000 by the creation of an additional 9,883,873,460 shares of HK\$0.10 each.

The above purchase was completed on May 10, 2004. Details of these are set out in the Company’s circular dated April 2, 2004.

## SUBSIDIARIES

During the year, Dong Fang Gas (China) Limited, an indirect wholly-owned subsidiary of the Company, entered into an agreement for the acquisition of 73 percent equity interest in Top Power Holdings Limited (“Top Power”) at a consideration of HK\$80,000,000. Top Power is an investment holding company incorporated in the British Virgin Islands and owns a 70 percent equity interest in Beijing Continental Gas Co. Ltd. (“Beijing Continental Gas”). Beijing Continental Gas is a sino-foreign equity joint venture engaged in the business of natural gas supply, storage and related services.

## REPORT OF THE DIRECTORS

### RESULTS

The results of the Group for the year ended March 31, 2004 are set out in the accompanying consolidated income statement on page 38.

The directors do not recommend the payment of a final dividend for the year.

### RESERVES

Movements during the year in the reserves of the Group and the Company are set out in the consolidated statement of changes in equity on page 42 and note 33 to the financial statements respectively.

### FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of the Group for the last five financial years is set out on page 94.

### PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred expenditures of approximately HK\$1,988,000 on property, plant and equipment. In addition, property, plant and equipment with an aggregate net book value of approximately HK\$5,216,000 were acquired as a result of acquisition of subsidiaries.

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

### SHARE CAPITAL

There were no movements in the Company's share capital during the year. Details of these are set out in note 31 to the financial statements.

### MAJOR CUSTOMERS AND SUPPLIERS

During the year, aggregate sales attributable to the Group's five largest customers were approximately 70 percent of the Group's total sales, while sales attributable to the Group's largest customer were approximately 39 percent of the Group's total sales. The aggregate purchase attributable to the Group's five largest suppliers was approximately 51 percent of the Group's total purchases, while the purchases attributable to the Group's largest supplier were approximately 41 percent of the Group's total purchases.

At no time during the year have the directors, their associates or any shareholders, who, to the knowledge of the directors, owned more than 5 percent of the Company's issued share capital, had any interests in the Group's five largest customers or suppliers.

## DIRECTORS

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

### Executive Directors

Li Tzar Kai, Richard ( <i>Chairman</i> )	(appointed on May 10, 2004)
Yuen Tin Fan, Francis ( <i>Deputy Chairman</i> )	(appointed on May 10, 2004)
Lee Chi Hong, Robert ( <i>Chief Executive Officer</i> )	(appointed on May 10, 2004)
Alexander Anthony Arena	(appointed on May 10, 2004)
Hubert Chak	(appointed on May 10, 2004)
Dr Chan Kwok Keung, Charles	(resigned on May 10, 2004)
Dr Yap, Allan	(resigned on May 10, 2004)
Chan Kwok Hung	(resigned on May 10, 2004)
Zhang Shi Chen	(appointed on October 16, 2003 and resigned on May 10, 2004)

### Non-Executive Director

Dr Allan Zeman, G B S, J P	(appointed on June 7, 2004)
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### Independent Non-Executive Directors

Ronald James Blake, O B E, J P	(appointed on May 10, 2004)
Tsang Link Carl, Brian	
Prof Wong Yue Chim, Richard, S B S, J P	(appointed on July 9, 2004)
Zhao Wenfu	(appointed on October 15, 2003 and resigned on May 10, 2004)
Ng Wai Hung	(resigned on October 15, 2003)

In accordance with Bye-law 86(2) of the Company's Bye-laws, Yuen Tin Fan, Francis, Lee Chi Hong, Robert, Alexander Anthony Arena, Hubert Chak, Ronald James Blake, Prof Wong Yue Chim, Richard and Dr Allan Zeman, shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

## REPORT OF THE DIRECTORS

### DIRECTORS' SERVICE CONTRACTS

Lee Chi Hong, Robert entered into a service contract with a wholly-owned subsidiary of the Company which may be terminated, by either party, on six months' notice.

The term of office for the non-executive directors is the period up to their retirement by rotation in accordance with the Company's Bye-laws.

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

### DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at March 31, 2004, the directors of the Company and their associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"):

NAME OF DIRECTOR	LONG POSITION/ SHORT POSITION	NATURE OF INTEREST	NUMBER OF SHARES HELD (NOTE)	APPROXIMATE PERCENTAGE OF ISSUED SHARE CAPITAL
Dr Chan Kwok Keung, Charles	Long position	Personal interest	2,520,900	0.22%

NOTE: Shares of HK\$0.40 each in the share capital of the Company.

Save as disclosed above, as at March 31, 2004, none of the directors or their associates had any interests or short positions in any shares, underlying shares and 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 under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

Particulars of the Company's share option schemes are set out in note 32 to the financial statements. No share options were outstanding as at March 31, 2004.

No options were granted to, or exercised by, the directors during the year, and no share options were held by the directors as at March 31, 2004.

At no time during the year 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.

#### DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance 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 the end of the year or at any time during the year.

#### DIRECTORS' INTERESTS IN COMPETING BUSINESS

The interests of the directors of the Company in competing business as at March 31, 2004 required to be disclosed pursuant to Rule 8.10 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") were as follows:

NAME OF DIRECTOR	NAME OF COMPANY/ PARTNERSHIP/SOLE PROPRIETORSHIP	NATURE OF COMPETING BUSINESS	NATURE OF INTEREST
Dr Chan Kwok Keung, Charles	ITC Corporation Limited ("ITC") and its subsidiaries	Trading of building materials	Substantial shareholder and chairman of ITC
Dr Yap, Allan	Hanny Holdings Limited ("Hanny")	Securities investment and trading	Chairman of Hanny
Chan Kwok Hung	Hanny	Securities investment and trading	Managing director of Hanny
	ITC and its subsidiaries	Trading of building materials	Executive director of ITC
	Hanny	Securities investment and trading	Executive director of Hanny

Other than as disclosed above, as at March 31, 2004, none of the directors is interested in any business apart from the Group's businesses, which competes or is likely to compete, either directly or indirectly, with the Group's businesses.

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### INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at March 31, 2004, the following persons were substantial shareholders of the Company (as defined in the Listing Rules) and had interests or short positions 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	LONG POSITION/ SHORT POSITION	CAPACITY	NUMBER OF SHARES HELD	APPROXIMATE PERCENTAGE OF ISSUED SHARE CAPITAL
China Strategic Holdings Limited ("China Strategic")	Long position	Held by controlled corporation*	500,000,000	43.06%
China Strategic (B.V.I.) Limited	Long position	Held by controlled corporation*	500,000,000	43.06%
Great Joint Profits Limited	Long position	Beneficial owner*	500,000,000	43.06%

\*Note: The shares were held by Great Joint Profits Limited, a wholly-owned subsidiary of China Strategic (B.V.I.) Limited, which in turn is wholly-owned by China Strategic.

Save as disclosed above, the Company had not been notified of any other person (other than directors or the chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

### CONVERTIBLE LOAN

As disclosed in the annual report of the Company for the year ended March 31, 2003 ("Annual Report 2003"), an unsecured convertible loan of US\$12 million ("Convertible Loan") which is repayable on demand and carries interest at the rate of 9.8 percent per annum compounded annually for a term of six years was advanced by Simonson International Development Limited ("Simonson"), a wholly-owned subsidiary of ING Beijing Investment Company Limited ("ING") and an independent third party, to Companion-China Limited, a wholly-owned subsidiary of the Company, in 1997. The Convertible Loan and the accrued interest thereon will, at the option of the convertible noteholder, be convertible into fully paid ordinary shares of the Company at a conversion price calculated at 90 percent of the average closing price of the shares of the Company quoted on the Stock Exchange for the 20 trading days immediately preceding the date of the notice under the terms and conditions of the convertible loan deed, details of which are set out in the circulars to the shareholders of the Company dated May 13, 1997 and December 20, 2000.

By an assignment executed on February 18, 2002, Simonson has assigned to Perfect Master Limited ("PML"), a wholly-owned subsidiary of ING and an independent third party, the Convertible Loan and all related rights and interest. On the same date, the entire issued share capital of PML and the Convertible Loan were then sold to Galaxy Time Limited, a company held by New World Enterprise Holdings Limited. Details are set out in the announcement of the Company dated February 18, 2002.

As disclosed in the Annual Report 2003 and the interim report of the Company for the six months ended September 30, 2003, the Group failed to repay a certain part of the Convertible Loan, resulting in the whole outstanding principal sum of US\$11.9 million becoming repayable on demand. The conversion option to convert the Convertible Loan and the accrued interest into fully paid ordinary shares of the Company lapsed on June 25, 2003 but all other rights attached to the Convertible Loan subsisted.

#### 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 41 to the financial statements.

#### CODE OF BEST PRACTICE

The Company has complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules throughout the year ended March 31, 2004, except that the non-executive directors are not appointed for a specific term as they are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Bye-laws of the Company.

#### 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.

#### 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 in Bermuda.

#### POST BALANCE SHEET EVENTS

Details of significant post-balance sheet events are set out in note 43 to the financial statements.



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### CONNECTED TRANSACTIONS

In the period since the publication of the Annual Report 2003, the following members of the Group (which became members of the Group upon completion of the purchase mentioned in the paragraphs under the heading “Major Transactions”) entered into (or continued to be party to) certain transactions which were “connected transactions” as defined by the Listing Rules and which are subject to disclosure obligations under Chapter 14A of the Listing Rules. Details of such transactions are as follow:

1. On November 29, 2002, PCCW-HKT Limited (“HKT”), a wholly-owned subsidiary of PCCW, entered into a HKT General Shared Services (Variation) Agreement (“Shared Services Agreement”) with Reach Networks Hong Kong Limited (“Reach”), a wholly-owned subsidiary of Reach Ltd., a 50:50 joint venture between PCCW and Telstra Corporation Limited. HKT is an investment holding company, the principal activities of its subsidiaries are provision of information technology solutions to business organisations. Reach is principally engaging in the provision of public telecommunication services, including international public telephone services and leased circuits for international telephone, telegraph data and facsimile services. Pursuant to the Shared Services Agreement, the parties agreed to replace Schedule 14 of the HKT General Shared Services Agreement the parties entered into on October 13, 2000. The terms upon which these services were to be rendered were due to expire on September 30, 2003. PCCW confirmed that PCCW Facilities Management Limited (“PCCW FM”), a wholly-owned subsidiary of the Company which was established for the purposes of providing facilities management, project management and other special property/asset related services to which PCCW and its subsidiaries (“PCCW Group”) transferred its relevant personnel, became fully operational in December, 2002. The building operations and maintenance and other support services which had been provided by the PCCW Group to Reach since November 29, 2002 was also transferred to PCCW FM pursuant to a verbal agreement between HKT and PCCW FM on that date. In anticipation of the expiration of the Shared Services Agreement on September 30, 2003, Reach has indicated to HKT that it requires the continuation of services. In view of the proposed renewal of services between HKT and Reach under the Shared Services Agreement from October 1, 2003, HKT and PCCW FM verbally agreed on September 1, 2003 (the “Subsidiary Services Agreement”) the basis upon which PCCW FM should on behalf of HKT provide a range of services to Reach under the Shared Services Agreement (as amended from time to time). This Subsidiary Services Agreement was for a term expiring on December 31, 2006, subject to termination by either party giving not less than 10 days’ written notice to the other. With effect from October 1, 2003, in addition to building operations and maintenance and other support services originally provided, facilities management, project management and other special services were also provided by PCCW FM to Reach under the Subsidiary Services Agreement. By March 4, 2004, HKT and Reach have finalised the terms of the services to be provided under Schedule 14 of the Shared Services Agreement to be provided by HKT to Reach and entered into a verbal agreement (“Renewed Agreement”), pursuant to which the services be provided for a term of 39 months commencing from October 1, 2003 and ending on December 31, 2006. The terms of the Subsidiary Services Agreement are not affected by the Renewed Agreement. The remainder of the term for which PCCW FM has to provide the services under the Subsidiary Services Agreement will be less than three years.

Pursuant to the Renewed Agreement, the service fee payable by Reach to PCCW FM for the current period from March 1, 2004 to December 31, 2004 is approximately HK\$3.0 million; for the period from January 1, 2005 to December 31, 2005 is approximately HK\$3.7 million and for the period from January 1, 2006 to December 31, 2006 is approximately HK\$3.9 million. PCCW confirmed that the yearly service fee is arrived at based on the estimated staff cost to be incurred for the whole year plus a manager remuneration to PCCW FM, which is determined after considering factors such as market rate for similar services, estimated overhead of PCCW FM and market conditions. If any third party service provider costs are incurred, Reach would be charged without mark up. The service fee has to be settled by cash payment on a monthly pro-rata basis.

2. PCCW Properties (HK) Limited, a wholly-owned subsidiary of the Company, and PCCW FM (together “Service Providers”) have been respectively providing asset, property and facilities management services to PCCW Services Limited (“PCCW Services”), a wholly-owned subsidiary of PCCW and Gate Land Limited, an associate of Li Tzar Kai, Richard, the controlling shareholder of PCCW pursuant to verbal agreements on October 1, 2003 and October 1, 2002. PCCW confirmed that the service fees are charged on either time apportionment basis or head count basis, which has to be settled by cash payment on a monthly pro-rata basis. The service fees charged by the Service Providers for their provision of the above services for the 12 months ending December 31, 2004 (being the expiry date of the services arrangements) would not exceed HK\$50.7 million. PCCW Services is principally engaged in the provision of management services to the PCCW Group. Gate Land Limited is a project company for property development.
3. Partner Link Investments Limited (“Partner Link”), a wholly-owned subsidiary of the Company, entered into a verbal agreement with PCCW Services on January 1, 2003 (“Lease Arrangement”). Pursuant to the Lease Arrangement, PCCW Services leases 10 whole floors and part of the 20th floor and the 32nd floor of PCCW Tower of the total gross floor area of around 179,843 square feet for terms all commencing in 2003 and all expiring on December 31, 2005 at an aggregate monthly rental of approximately HK\$3,184,000 (exclusive of Government rates, air-conditioning and management charges which are to be borne by the tenant). The monthly rental, which reflects prevailing market rates as at the commencement date of the lease, has to be settled in advance on the first day of each month by PCCW Services.
4. Pursuant to the agreement dated April 30, 2002, PCCW Services sub-license level 8 of Cyberport 2, Phase C1, Telegraph Bay, Pokfulam, Hong Kong to PCCW Properties (HK) Limited for office use for the period from April 2, 2002 to April 1, 2007. A supplemental agreement was entered into between the two parties on July 2, 2003 to sub-license additional area on certain units on level 7 of Cyberport 3, Phase C1, Telegraph Bay, Pokfulam, Hong Kong to PCCW Properties (HK) Limited for term commencing September 2, 2003 to April 1, 2007. The aggregate monthly rental (inclusive of management fees and rates; direct reimbursable amounts such as security, electricity, cleaning, repair and maintenance and other support services) for the total gross floor area of around 21,402 square feet is approximately HK\$0.5 million. The monthly rental which reflects prevailing market rates as at the commencement date of the lease has to be paid by PCCW Properties (HK) Limited in advance on the first day of each month.

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### DISCLOSURE UNDER RULE 13.21 OF THE LISTING RULES

The Group is in breach of a covenant in respect of certain banking facilities and the amount of such banking facilities utilised was approximately HK\$103,330,000 as at March 31, 2004. As in the event of default repayment, certain amount has become technically repayable on demand. The Group also failed to repay the Convertible Loan (as defined in the paragraph under the heading “Convertible Loan”) with the outstanding principal sum of approximately US\$11.9 million and accordingly, the Convertible Loan has become technically repayable on demand.

### AUDITORS

The financial statements for the year ended March 31, 2004 have been audited by Deloitte Touche Tohmatsu who will retire upon conclusion of the forthcoming annual general meeting and will not offer themselves for re-appointment. A resolution will be submitted at the forthcoming annual general meeting to appoint PricewaterhouseCoopers as the new auditors of the Company.

On behalf of the Board

**YUEN Tin Fan, Francis**  
*Deputy Chairman*

Hong Kong, July 22, 2004