Pacific Century
Premium Developments
盈科大衍地產發展

2004

INTERIM REPORT 中期報告

STATEMENT FROM THE CHAIRMAN

THE RECENT INCREASE IN HONG KONG PROPERTY PRICES IS A CLEAR INDICATION OF THE POSITIVE MARKET TREND, EVIDENCED BY THE IMPRESSIVE SALES PERFORMANCE OF THE BEL-AIR DEVELOPMENT.

Dear Fellow Shareholders,

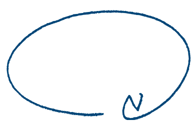
Hong Kong's overall economy has been improving, primarily driven by the global economic recovery and the closer economic ties between the Mainland and the Hong Kong Special Administrative Region ("HKSAR") reinforced by the Closer Economic Partnership Arrangement ("CEPA").

Pacific Century Premium Developments Limited ("PCPD") remains very positive on the Hong Kong property market supported by economic improvement, robust demand and limited supply of high-end residential developments. The recent increase in Hong Kong property prices is a clear indication of the positive market trend, evidenced by the impressive sales performance of the Bel-Air development.

I am also pleased to report that the Cyberport project is enjoying international acclaim by winning the Intelligent Building of the Year Award in June 2004. This is further testimony of the high calibre of the PCPD team who were responsible for developing this project on behalf of The Government of the HKSAR with such success that they have enhanced Hong Kong's image as one of the world's premier centers of technological excellence.

PCPD will continue to differentiate its brand by maintaining a reputation for quality and unique luxury lifestyle concepts. Looking ahead, I believe that PCPD is well positioned to execute its strategy and develop premium properties when good opportunities arise.

Finally, I would like to take this opportunity to thank our dedicated management and staff for their good work especially in the area of sales.



Richard Li
Chairman
November 2, 2004

STATEMENT FROM THE CHIEF EXECUTIVE OFFICER

THIS STRONG FINANCIAL PERFORMANCE CLEARLY DEMONSTRATES THE SUCCESS OF OUR BEL-AIR DEVELOPMENT SUPPORTED BY THE PROFESSIONALISM, TALENT AND DEDICATION OF THE PCPD TEAM.

I am pleased to report that the financial performance of Pacific Century Premium Developments Limited ("PCPD") during the nine-month accounting period ended September 30, 2004 has proven the Company's capability in its core businesses of property development and investment.

Following the completion of the acquisition of PCCW Limited's property interests on May 10, 2004, PCPD is now principally engaged in the development and management of property and infrastructure projects and owns an investment portfolio of premium-grade buildings. The financial information in this report reflects the performance of the property business in the first nine months of 2004.

For the first nine months of 2004, we reported a consolidated turnover of approximately HK$3,250 million, primarily driven by the strong sales of Bel-Air luxury apartments, compared with HK$2,436 million for the same period of last year. Net profits for the period reached some HK$288 million compared with the net loss of HK$36 million during the same period last year. Earnings per share for the period was HK$0.17.

This strong financial performance clearly demonstrates the success of our Bel-Air development supported by the professionalism, talent and dedication of the PCPD team. Bel-Air is now widely recognized as being a trendsetter in creating both an innovative lifestyle concept and an exceptional new standard in luxury living accommodation. Up to end of October 2004, more than 1,600 Bel-Air units had been sold, generating approximately HK$16.7 billion in pre-sales proceeds. The sales performance at Bel-Air is illustrative of the proven capabilities that form the foundation on which we will build our new company. Our Bel-Air development will be the main source of revenue for PCPD over the next few years, as successive phases of this deluxe residential complex are launched. I strongly believe its continued strong sales will accelerate the return of cash to PCPD.

Another significant milestone was the first distribution of surplus proceeds from the Cyberport project. In August 2004, surplus proceeds was allocated between The Government of the Hong Kong Special Administrative Region ("HKSAR") and PCPD. The Company has received approximately HK$920 million according to its share of the contribution in the project.

Our portfolio of premium-grade investment properties – including PCCW Tower in Hong Kong and Pacific Century Place in Beijing – continues to enjoy strong occupancy rates of well over 90 percent. This has attributed to a stable stream of recurring income of some HK$269 million up to September 30, 2004.

The current Hong Kong property market is particularly encouraging for property developers like PCPD. A limited supply of premium residential real estate, particularly on Hong Kong Island, combined with renewed investors' confidence has set the scene for a solid growth period in the property market. This strong market sentiment is well supported by The HKSAR Government's policy of non-intervention in the property market.

We are now looking at different opportunities in the real estate sector and actively considering proposals to redevelop a number of PCCW-owned telephone exchange buildings, which will be a potential source of prime residential and commercial projects over the coming years.

As a new company, we are fully committed to growing our core businesses with a sharp focus on developing premium properties with a view to creating shareholders' value.

Robert Lee
Chief Executive Officer
November 2, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

On May 10, 2004, Pacific Century Premium Developments Limited (the "Company") acquired various property interests of PCCW Limited ("PCCW"). The details of the transaction are set out in the section headed "Material Acquisitions and Disposal" (the "Transaction"). The Company and its subsidiaries (the "Group") are now principally engaged in the development and management of property and infrastructure projects and own an investment portfolio of premium-grade buildings.

Under generally accepted accounting principles in Hong Kong, the Transaction is accounted for as a reverse acquisition since the issuance of the consideration shares and convertible notes resulted in PCCW becoming the controlling shareholder of the Company. For accounting purposes, Ipswich Holdings Limited, a subsidiary of PCCW, and its subsidiaries (the "Property Group") are treated as the acquirer while the Company and its subsidiaries are deemed to have been acquired by the Property Group.

The management critically reviewed the strategic roles of certain subsidiaries of the Company existing prior to the Transaction and decided to divest such subsidiaries when opportunities arise. As certain subsidiaries have been acquired and held exclusively with a view to their subsequent disposal in the near future, the investments in certain subsidiaries are accounted for as other investments.

Accordingly, the unaudited consolidated financial results for the nine months ended September 30, 2004 have been prepared as a continuation of the consolidated financial results of the Property Group. All comparative financial information for the nine months ended September 30, 2003 represents comparative financial information for the Property Group.

A management's discussion and analysis of the interim results and operations relating to the Group's businesses for the nine months ended September 30, 2004 follows below:

REVIEW OF INTERIM RESULTS AND OPERATIONS

The Group has a consolidated turnover of approximately HK$3,250 million for the nine months ended September 30, 2004, representing an increase of 33.4 percent compared with a consolidated turnover of approximately HK$2,436 million for the nine months ended September 30, 2003. The increment in the Group's consolidated turnover reflected the strong sales of Bel-Air luxury apartments during the period.

The Group recorded a consolidated net profit of approximately HK$288 million for the nine months ended September 30, 2004, compared with the Group's consolidated net loss of approximately HK$36 million for the nine months ended September 30, 2003. The net profit increased by approximately HK$324 million compared with the same period in last year, reflecting a higher gross profit margin attributable to higher selling prices of Bel-Air residential units sold in 2004.

Property development

During the period from January 1, 2004 to September 30, 2004, the residential portion of the Cyberport project, known as Bel-Air, achieved impressive sales performance. Pre-sales of Bel-Air luxury apartments, continued to ride on the recovery of the Hong Kong property market and achieved total sales of more than 300 units and sales proceeds of HK$4,878 million at the end of September 2004.

Since the commencement of sales in 2003 and up to September 30, 2004, 1,503 Bel-Air apartments have been sold, generating approximately HK$14,643 million in pre-sales proceeds. The total sales proceeds generated were more than sufficient to fund the remaining construction costs for the Cyberport project. The Group recognized HK$2,933 million in revenue for the period from January 1, 2004 to September 30, 2004, on the basis of percentage of completion, in accordance with industry practice. The profit from operations for the nine months was HK$269 million comparing to a loss from operations of HK$31 million last year.

In August 2004, the first portion of the surplus proceeds totaling HK$2,595 million was allocated between The Government of the Hong Kong Special Administrative Region ("HKSAR") and the Company. The Company received approximately HK$920 million according to its share of the contribution in the project.

The commercial portion of the Cyberport project was completed on June 28, 2004 and has already won a crop of accolades. These include a Merit Award of Excellence from the American Institute of Architects, as well as the internationally-acclaimed Intelligent Building of the Year Award presented in New York City by the Intelligent Community Forum, which is part of the World Teleport Association.

The occupation permit of the first phase of the residential portion known as Residence Bel-Air was issued in June 2004.

Property investment

The Group's property business also has an investment portfolio of premium-grade buildings, such as the Pacific Century Place city-center complex in Beijing and the 43-storey PCCW Tower in Hong Kong. The gross rental income for the period under review amounted to HK$269 million, a slight increase of 2.2 percent from the same period of last year. Overall occupancy rate of the rental portfolio remained at above 90 percent.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Other businesses

Other businesses include the property management division providing services of property management, facilities management, corporate services and asset management. The services income from property management division for the period under review amounted to HK$53 million compared with HK$62 million in last year. This division has been appointed to provide property management services for the deluxe apartments and houses at Bel-Air commencing in September 2004.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Company carried out the following capital reorganization during the period under review as a result of the acquisition of various property interests of PCCW. Details of the Transaction are set out in the section headed "Material Acquisitions and Disposal":

(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) the authorized share capital was increased 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.

As at September 30, 2004, total borrowings of the Group amounted to approximately HK$7,516 million, representing a decrease of HK$497 million compared with total borrowings of HK$8,013 million as at December 31, 2003. During the period, the Group repaid the bank loans of HK$1,151 million. As at September 30, 2004, the long-term borrowings were from PCCW as detailed in the circular (the "Circular") of the Company dated April 2, 2004. The Cyberport loan of approximately HK$3,907 million is interest free and repayable by the pre-sales proceeds of Bel-Air development while the convertible note (tranche A) for HK$1,170 million is interest free and convertible note (tranche B) for HK$2,420 million carries a fixed interest rate of one percent per annum. As most of the loans are regarded as shareholder's loans, the gearing ratio is not provided.

There is an unsecured banking facility of HK$20 million and the unused facility was HK$19 million at September 30, 2004.

The majority of the Group's business transactions, assets and liabilities were denominated in Hong Kong dollars. For the transactions, assets and liabilities relating to Pacific Century Place Beijing in the People's Republic of China (the "PRC"), they were denominated in Renminbi and the revenue contributed approximately 5 percent of the Group's revenue while the assets formed approximately 25 percent of the total assets of the Group.

Borrowings were denominated in Hong Kong dollars. Cash and cash equivalents were held mainly in Hong Kong dollars and Renminbi. Given the exchange rates of these currencies are fairly stable, the Group has no significant exposure to foreign exchange fluctuation and has not adopted any material hedging measures.

The cash inflow from operating activities for the nine months ended September 30, 2004 was HK$1,051 million which included the distribution of surplus proceeds of HK$920 million from Cyberport project. For the same period of 2003, the cash outflow from operating activities was HK$569 million as more cash was kept in restricted cash for Cyberport project.

MATERIAL ACQUISITIONS AND DISPOSAL

Acquisition of various property interests of PCCW

On March 5, 2004, PCCW and the Company jointly announced that the Company has conditionally agreed to purchase:

(i) the entire issued share capital of the Property Group, being the group of companies holding Pacific Century Place Beijing located in the PRC, PCCW Tower located in Hong Kong, other investment properties and related property and facilities management companies of PCCW group and includes Cyber-Port Limited (the developer of the Cyberport project);

(ii) the property situated at Ko Shing Street and Wo Fung Street, Western, Hong Kong; and

(iii) approximately HK$3,529 million in aggregate of interest-bearing loans owing by the relevant members of the Property Group to PCCW.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 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.

The above purchase was completed on May 10, 2004, details of which are set out in the Circular.

The Company was also granted the right of first refusal to jointly redevelop with PCCW the telephone exchanges in Hong Kong, subject to the approval by The Government of the HKSAR.

Disposal of Gas Operation

As disclosed in the Company's announcement dated September 8, 2004, Dong Fang Gas (China) Limited, an indirectly wholly-owned subsidiary of the Company, has entered into a conditional agreement on September 7, 2004 with See Hup Seng Limited ("SHSL"), a Singapore company listed on the Singapore Exchange Securities Trading Limited, for the disposal of the Company's entire interest in a gas operation for a consideration of approximately HK$80 million (approximately HK$10 million to be settled by cash and the balance to be settled by securities of SHSL). The consideration is arrived at after arm's length negotiations with reference to the carrying value of approximately HK$80 million of this investment. At the date of this interim report, the transaction has not yet been completed.

CONTINGENT LIABILITIES

As at September 30, 2004, the Group had granted a corporate guarantee to The Government of the HKSAR for certain entrusted works in relation to engineering infrastructure for the Cyberport development for an amount of HK$0.8 million.

CHARGES ON GROUP ASSETS

There are no charges on any of the Group's assets as at September 30, 2004.

EMPLOYEES AND REMUNERATION POLICIES

As at September 30, 2004, the Group employed approximately 412 staff. The Group's remuneration policies are in line with prevailing industry practices, are formulated on the basis of performance and experience and will be reviewed regularly. The Group also provided employees with comprehensive benefits including medical insurance and training programs.

The share option scheme of the Company adopted pursuant to a resolution passed on October 13, 1998 and becoming effective on December 24, 1999 was terminated on March 17, 2003 and replaced by a new share option scheme being approved and adopted on the same date. The new share option scheme is valid and effective for a period of ten years from the date of adoption.

OUTLOOK

The Group remains very positive on the Hong Kong property market supported by economic improvement, robust demand and limited supply of high-end residential developments. The Group is committed to growing its core businesses with a sharp focus on developing premium properties with a view to creating shareholders' value.

The Group expects the proceeds from the future sales of the remaining phases at the Bel-Air development will be the main source of revenue for the Company over the next few years. Strong sales from Bel-Air will continue to strengthen the cash flow and the profitability for the Group.

The Group is also looking at different opportunities in the real estate sector and actively considering proposals to redevelop a number of PCCW-owned telephone exchange buildings, which will be a potential source of prime residential and commercial projects over the coming years.

FINANCIAL INFORMATION

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

The board of directors is pleased to present the interim financial report which comprises the condensed consolidated income statement, consolidated statement of changes in equity and condensed consolidated cash flow statement of Pacific Century Premium Developments Limited (the "Company") and its subsidiaries (collectively known as the "Group") for the nine months ended September 30, 2004 and the condensed consolidated balance sheet of the Group as at September 30, 2004, all of which are unaudited, together with the comparative figures in 2003. The interim financial report has been reviewed by the Company's Audit Committee and the Company's auditors, in accordance with Statement of Auditing Standard 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (formerly known as the Hong Kong Society of Accountants (the "HKSA")).

For the nine months ended September 30, 2004 In HK$'million (except for earnings/(loss) per share)	Note	**2004**	2003 (Note 19)
Turnover	4	**3,250**	2,436
Profit from operations	4	**429**	112
Finance costs, net		**(65)**	(123)
Profit/(Loss) before taxation	5	**364**	(11)
Taxation	6	**(76)**	(25)
Profit/(Loss) after taxation for the period attributable to shareholders		**288**	(36)
Basic earnings/(loss) per share	8	**HK$0.17**	(HK$0.02)
Diluted earnings per share	8	**HK$0.13**	N/A

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

As at September 30, 2004 In HK$'million	Note	At September 30, 2004	At December 31, 2003 (Note 19)
ASSETS AND LIABILITIES			
Non-current assets			
Fixed assets	16	6,435	6,294
Properties under development		4,848	3,769
Goodwill		58	—
Other non-current assets		11	28
		11,352	10,091
Current assets			
Properties under development		1,092	286
Sales proceeds held in stakeholders' accounts		2,430	2,402
Restricted cash		956	2,701
Investment in unconsolidated subsidiaries	1	80	—
Accounts receivable	9	74	22
Prepayments, deposits and other current assets		81	113
Gross amount due from customer for contract work		2	—
Amount due from fellow subsidiaries		23	—
Cash and cash equivalents		478	124
		5,216	5,648
Current liabilities			
Current portion of long-term liabilities		—	(94)
Accounts payable	10	(172)	(184)
Accruals, other payables and deferred income		(1,298)	(1,229)
Amount due to related companies		(4)	(5)
Amount due to fellow subsidiaries		(3)	—
Amount due to ultimate holding company		(10)	(2,441)
Provisions	11	(1,227)	(1,759)
Taxation		(35)	(2)
		(2,749)	(5,714)
Net current assets/(liabilities)		2,467	(66)
Total assets less current liabilities		13,819	10,025

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

As at September 30, 2004 In HK$'million	Note	At September 30, 2004	At December 31, 2003 (Note 19)
Non-current liabilities			
Long-term liabilities		—	(1,057)
Deferred taxation		(530)	(506)
Provisions	11	(3,174)	(1,941)
Convertible notes	12	(3,609)	—
Amount due to ultimate holding company		(3,907)	(4,503)
Loan from ultimate holding company		—	(359)
Loan from a fellow subsidiary		—	(2,000)
Other long-term liabilities		(64)	(31)
		(11,284)	(10,397)
Net assets/(liabilities)		2,535	(372)
REPRESENTING:			
Issued equity	13	3,176	—
Deficits		(641)	(372)
		2,535	(372)

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended September 30, 2004 In HK$'million	2004 Issued equity (note 13)	Property revaluation reserve	Currency translation reserve	Capital reserve (note a)	Deficit	Total
Beginning of period	—	263	—	—	(635)	(372)
Issue of ordinary shares, net of issuing expenses	2,967	—	—	—	—	2,967
Acquisition of subsidiaries	209	—	—	—	—	209
Net gains/(losses) not recognized in unaudited condensed consolidated income statement:						
Decrease in capital reserve	—	—	—	(565)	—	(565)
Translation exchange differences	—	—	8	—	—	8
Profit for the period	—	—	—	—	288	288
End of period	3,176	263	8	(565)	(347)	2,535

In HK$'million	2003 Issued equity	Property revaluation reserve	Currency translation reserve	Capital reserve	Deficit	Total
Beginning of period	—	—	3	—	(638)	(635)
Loss for the period	—	—	—	—	(36)	(36)
End of period	—	—	3	—	(674)	(671)

(a) Capital reserve of the Group represents difference between the carrying amounts of the net assets of the Property Group and the stated value of the shares issued by Ipswich Holdings Limited in exchange.

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the nine months ended September 30, 2004 In HK$'million	2004	2003 (Note 19)
Net cash inflow/(outflow) from operating activities	**1,051**	(569)
Net cash inflow/(outflow) from investing activities	**61**	(9)
Net cash (outflow)/inflow from financing activities	**(758)**	589
Increase in cash and cash equivalents	**354**	11
Cash and cash equivalents at beginning of period	**124**	337
Cash and cash equivalents at end of period	**478**	348
Analysis of the balance of cash and cash equivalents:		
Cash and bank balances	**1,434**	2,065
Less: Restricted cash	**(956)**	(1,717)
	478	348

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2004

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with the requirements of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") including compliance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the HKICPA.

On March 5, 2004, PCCW Limited ("PCCW"), the ultimate holding company of the Company and the Company, then named Dong Fang Gas Holdings Limited, entered into an agreement (the "Sale and Purchase Agreement"). Pursuant to the Sale and Purchase Agreement, the Company conditionally agreed to purchase PCCW's interest in certain investment properties, the Cyberport project and related property and facilities management companies for an aggregate consideration of HK$6,557 million (the "Transaction"). The purchase was achieved through the acquisition of Ipswich Holdings Limited, a then subsidiary of PCCW, and its subsidiaries (the "Property Group") and certain assets held by another subsidiary of PCCW.

The aggregate consideration for the acquisition, which amounted to HK$6,557 million, was satisfied:

(a) as to HK$2,967 million, by the allotment and issue of approximately 1,648 million new shares of the Company ("Consideration Shares") by the Company to Asian Motion Limited ("Asian Motion"), a directly wholly owned subsidiary of PCCW, credited as fully paid at an issue price of HK$1.80 per new share (taking into account the effect of the 10:1 share consolidation); and

(b) as to the remaining HK$3,590 million, by the issue of convertible notes ("Consideration Notes") by the Company to PCCW.

The Sale and Purchase Agreement became unconditional on May 10, 2004 ("Date of Completion") and the Company was subsequently renamed Pacific Century Premium Developments Limited.

Under generally accepted accounting principles in Hong Kong, the Transaction has been accounted for as a reverse acquisition since the issuance of the Consideration Shares and Consideration Notes resulted in PCCW becoming the controlling shareholder of the Company. For accounting purposes, the Property Group is treated as the acquirer while the Company and its subsidiaries ("the DFG Group") is deemed to have been acquired by the Property Group. These consolidated financial statements have been prepared as a continuation of the consolidated financial statements of the Property Group and accordingly,

(a) the assets and liabilities of the Property Group are recognised and measured at the date of acquisition at their historical carrying values prior to the Transaction;

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2004

1. BASIS OF PREPARATION - CONTINUED

(b) the deficits and other equity balances recognised in these consolidated financial statements are the deficits and other equity balances of Property Group;

(c) the amount recognised as issued equity, consists of share capital and share premium, has been determined by adding to the issued equity of the Property Group immediately before the Transaction the cost of the acquisition of the DFG Group. However, the equity structure (i.e. the number and type of shares issued) reflects the equity structure of the Company including the shares issued in effecting the Transaction; and

(d) comparative information presented is that of the Property Group.

In preparing these consolidated financial statements, the Property Group has applied the purchase method to account for the acquisition of the DFG Group. In applying the purchase method, the identifiable assets and liabilities of the DFG Group were recorded in the consolidated balance sheet at their fair values at the Date of Completion. In addition, goodwill arising on the acquisition of DFG Group of approximately HK$59 million was recorded, being the excess of the cost of acquisition of the DFG Group over the sum of the fair values of the identifiable assets less liabilities of the DFG Group.

Considering that certain subsidiaries of the DFG Group were acquired and held exclusively with a view to their subsequent disposal in the near future, the investment in certain subsidiaries of the DFG Group is accounted for as other investments and stated at fair value of approximately HK$80 million as at September 30, 2004 and recorded as “investment in unconsolidated subsidiaries” under current assets in the unaudited condensed consolidated balance sheet.

During the reporting period, the unconsolidated subsidiaries recorded turnover of approximately HK$16 million for the period from April 1, 2004 to May 10, 2004 and approximately HK$56 million for the period from May 11, 2004 to September 30, 2004 (April 1, 2003 to September 30, 2003: HK$84 million) and profit after taxation of approximately HK$2 million for the period from April 1, 2004 to May 10, 2004 and loss of approximately HK$39 million for the period from May 11, 2004 to September 30, 2004 (April 1, 2003 to September 30, 2003: profit after tax of approximately HK$0.04 million).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2004

2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies adopted in preparing these unaudited condensed consolidated financial statements are consistent with those followed in preparing the combined financial statements (the "Financial Information") of Ipswich Holdings Limited and the companies which became its subsidiaries in a reorganisation completed in May 2004 as of and for the three years ended December 31, 2003. Those financial statements formed the basis of the Financial Information on the Property Group included in the circular to shareholders dated April 2, 2004 in relation to the transaction with Dong Fang Gas Holdings Limited ("DFG"), except that investment in certain subsidiaries acquired and held exclusively with a view to their subsequent disposal in the near future has been accounted for as other investments, details of which are set out in note 1.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong ("HK GAAP") and complies with applicable accounting standards issued by the HKICPA. The financial statements are prepared under the historical cost convention modified by the revaluation of investment properties.

(a) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and 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 income arising from sales of completed properties is recognised upon completion of the sale when title passes to the purchaser.

Revenue and income arising from the pre-sale of properties under development is recognised on the percentage of construction completion basis when legally binding unconditional sales contracts are signed and exchanged, provided that the construction work has progressed to a stage where the ultimate realisation of profit can be reasonably determined and on the basis that the total estimated profit is apportioned over the entire period of construction to reflect the progress of the development.

(ii) Rental income from operating leases

Rental income receivable from investment properties 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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2004

2. PRINCIPAL ACCOUNTING POLICIES - CONTINUED

(a) Revenue recognition - continued

(iii) Contract revenue

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

(iv) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

(b) 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

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 2(c). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(e). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 2(a)(ii).

(ii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2004

2. PRINCIPAL ACCOUNTING POLICIES - CONTINUED

(c) Fixed assets and depreciation

Fixed assets, excluding investment properties, are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(e)). 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. Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset and is depreciated over the original remaining useful life of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. 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.

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

Land and buildings	Over the shorter of the lease term and the estimated useful lives
Other plant and equipment	Over the shorter of 2 to 10 years and the term of lease

Gains or losses arising from the retirement or disposal of a fixed asset 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.

(d) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential and for the long term.

Investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value, on the basis of an annual valuation by professionally qualified executives of the Group and by independent valuers at intervals of not more than three years. Changes arising on the revaluation of investment properties are generally dealt with in the property revaluation reserve unless the following circumstances arise:

(i) when a deficit arises on revaluation, it will be charged to the income statement, if and to the extent that it exceeds the amount held in the reserve in respect of the portfolio of investment properties, immediately prior to the revaluation; and

(ii) when a surplus arises on revaluation, it will be credited to the income statement, if and to the extent that a deficit on revaluation in respect of the portfolio of investment properties, had previously been charged to the income statement.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2004

2. PRINCIPAL ACCOUNTING POLICIES - CONTINUED

(d) Investment properties - continued

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the property revaluation reserve to the income statement as part of the gain or loss on disposal of the investment property.

No depreciation is provided on investment properties unless the unexpired lease term is 20 years or less, in which case depreciation is provided on their carrying value over the unexpired lease term.

(e) Impairment of assets

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

- fixed assets; and
- investments in subsidiaries.

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.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and its value in use. Net selling price 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2004

2. PRINCIPAL ACCOUNTING POLICIES - CONTINUED

(f) Properties held for development

Properties held for development represent interests in land where construction has not yet commenced. Properties held for development are stated at cost less any provision for impairment in value. Costs include original land acquisition costs, costs of land use rights, and any direct development costs incurred attributable to such properties.

(g) Properties under development

Properties under development represent interests in land and buildings under construction. Properties under development for long-term purposes are stated at cost less any provision for impairment in value. Properties under development for sale, pre-sales of which have not yet commenced are carried at the lower of cost and the estimated net realisable value. Properties under development for sale for which pre-sales have commenced are stated at cost plus attributable profits less sale deposits, instalments received and receivable and any foreseeable losses.

Cost includes original land acquisition costs, costs of land use rights, construction expenditure 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.

Properties under development for long-term retention, on completion, are transferred to fixed assets or investment properties.

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

(h) Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern its financial and operating policies, so as to obtain benefits from their activities.

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2004

2. PRINCIPAL ACCOUNTING POLICIES - CONTINUED

(i) Unconsolidated subsidiaries

An unconsolidated subsidiary is a subsidiary that is excluded from consolidation when control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future. Investment in unconsolidated subsidiaries of the Group are accounted for as stated in note 1 to the financial statements.

(j) Properties held for sale

Properties held for sale are stated at the lower of cost and the estimated net realisable value. Cost includes development and construction expenditure incurred, interest incurred during the construction period and other direct costs attributable to such properties. Net realisable value is estimated by the directors based on prevailing market prices, on an individual property basis, less any further costs expected to be incurred in selling the property.

(k) Construction contracts

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

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2004

2. PRINCIPAL ACCOUNTING POLICIES - CONTINUED

(l) Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and 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, and also advances from banks repayable within three months from the dates of advances.

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a present obligation (legal or constructive) as a result of a past event, it is probable (i.e. more likely than not) that an outflow of economic benefits 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 amount required. 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 economic benefits 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.

(n) 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 complete.

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2004

2. PRINCIPAL ACCOUNTING POLICIES - CONTINUED

(o) Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

(i) Current 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 year.

(ii) Deferred 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 tax assets also arise from unused tax losses and unused tax credits.

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

The amount of deferred 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 tax assets and liabilities are not discounted.

(p) 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 benefit and 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 which are generally held in separate trustee - administered funds. The schemes are generally funded by payments from the relevant companies of the PCCW Group and, in some cases, employees themselves, taking account of the recommendations of independent qualified actuaries.

The Group's contributions to the defined contribution schemes are recognised as an expense in the income statement in the period to which the contributions relate.

2. PRINCIPAL ACCOUNTING POLICIES - CONTINUED

(p) Employee benefits - continued

Retirement costs under defined benefit retirement schemes are assessed using the projected unit credit method. Under this method, the cost of providing defined benefits is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the schemes on an annual basis. The defined benefit obligation is measured as the present value of the estimated future cash outflows using interest rates determined by reference to market yields at the balance sheet date based on Exchange Fund Notes, which have terms to maturity approximating the terms of the related liability. Scheme assets are measured at fair value. Actuarial gains and losses, to the extent that the amount is in excess of 10 percent of the greater of the present value of the defined benefit obligations and the fair value of the scheme assets, are recognised in the income statement over the expected average remaining service lives of the participating employees. Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested.

(iii) Employee termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(q) Foreign currencies

Companies comprising the Group maintain their books and records in the primary currencies of their operations (the "respective reporting currencies").

In the financial statements of individual companies, transactions in other currencies during the year are translated into the respective reporting currencies at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in other currencies are translated into the respective reporting currencies at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

For the purposes of preparing these combined financial statements, the financial statements of the individual companies with reporting currencies other than Hong Kong dollars are translated into Hong Kong dollars using the net investment method. Under this method, assets and liabilities of these individual companies are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Income and expenses are translated at the average exchange rates for the year. Share capital and other reserves are translated into Hong Kong dollars at historical rates. Exchange differences arising on translation are dealt with as movements in reserves.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2004

2. PRINCIPAL ACCOUNTING POLICIES - CONTINUED

(r) Management estimates

The presentation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(s) Segment reporting

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

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

3. MATERIAL TRANSACTIONS

On September 7, 2004, Dong Fang Gas (China) Limited ("DFGCL") entered into a formal conditional agreement with See Hup Seng Limited ("SHSL"), a Singapore company listed on the Singapore Exchange Securities Trading Limited, for the disposal of the Company's entire interest in a gas operation for a consideration of approximately HK$80 million (approximately HK$10 million to be settled by cash and the balance to be settled by securities of SHSL). The consideration is arrived at after arm's length negotiations with reference to the carrying value of approximately HK$80 million of this investment. At the date of this report, the transaction has not yet been completed.

4. TURNOVER AND SEGMENT INFORMATION

An analysis of turnover and contribution to the Group's results by business segment is set out below:

	Turnover Nine months ended		**Profit/(loss) from operations Nine months ended**	
In HK$'million	**September 30, 2004 (Unaudited)**	September 30, 2003 (Unaudited)	**September 30, 2004 (Unaudited)**	September 30, 2003 (Unaudited)
Property development	**2,933**	2,116	**269**	(31)
Property investment	**269**	263	**170**	176
Other businesses	**101**	121	**4**	(18)
Elimination	**(53)**	(64)	**(14)**	(15)
	3,250	2,436	**429**	112

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2004

5. PROFIT/(LOSS) BEFORE TAXATION

Profit/(Loss) before taxation is stated after crediting and charging the following:

	Nine months ended	
In HK$'million	**September 30, 2004 (Unaudited)**	September 30, 2003 (Unaudited)
Crediting:		
Gross rental income	**269**	263
Less: outgoings	**(31)**	(27)
Charging:		
Cost of properties sold	**2,512**	2,060
Depreciation, included in:		
- cost of sales	**14**	13
- general & administrative expenses	**8**	4
Staff costs, included in:		
- cost of sales	**35**	35
- general & administrative expenses	**53**	30
Contributions to defined contribution retirement scheme , included in:		
- cost of sales	**2**	2
- general & administrative expenses	**2**	2
Interest expense on borrowings	**49**	131
Provision for redemption premium	**19**	—
Provision for doubtful debts	**—**	2
Amortization of goodwill	**1**	—

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2004

6. TAXATION

In HK$'million	Nine months ended September 30, 2004 (Unaudited)	Nine months ended September 30, 2003 (Unaudited)
Hong Kong:		
- Company and subsidiaries	**35**	2
Deferred taxation relating to the origination and reversal of temporary differences	**41**	23
	76	25

Hong Kong profits tax has been provided at the rate of 17.5 percent (2003: 17.5 percent) on the estimated assessable profits for the period.

7. INTERIM DIVIDEND

The board of directors does not recommend the payment of an interim dividend for the nine months ended September 30, 2004 (2003: nil).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2004

8. EARNINGS / (LOSS) PER SHARE

Under the reverse acquisition method of accounting, the 1,648,333,333 ordinary shares issued by the Company to Asian Motion to effect the Transaction described in Note 1 are deemed to be issued on January 1, 2003 for the purpose of calculating the earnings per share.

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

	Nine months ended	
	September 30, 2004 (Unaudited)	September 30, 2003 (Unaudited)
Earnings/(Loss) (HK$'million)		
Earnings/(Loss) for the purpose of basic earnings / (loss) per share	**288**	(36)
Interest and provision for redemption premium on convertible notes	**24**	—
Earnings/(Loss) for the purpose of diluted earnings / (loss) per share	**312**	(36)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	**1,709,586,893**	1,648,333,333
Effect of dilutive potential ordinary shares	**628,864,469**	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,338,451,362**	1,648,333,333

The diluted loss per share for the nine months ended September 30, 2003 is the same as the basic loss per share as all potential ordinary shares are anti-dilutive.

The weighted average number of ordinary shares for the purpose of calculating the basic loss per share for the nine months ended September 30, 2003 has been retrospectively adjusted for the ten-to-one share consolidation which took place on May 10, 2004.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2004

9. ACCOUNTS RECEIVABLE

An aging analysis of accounts receivable is set out below:

In HK$'million	At September 30, 2004 (Unaudited)	At December 31, 2003 (Unaudited)
Current	**31**	19
One to three months	**39**	2
More than three months	**4**	1
	74	22

The normal credit period granted by the Group ranges up to 30 days from the date of the invoice.

10. ACCOUNTS PAYABLE

An aging analysis of accounts payable is set out below:

In HK$'million	At September 30, 2004 (Unaudited)	At December 31, 2003 (Unaudited)
Current	**171**	93
One to three months	**—**	48
More than three months	**1**	43
	172	184

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2004

11. PROVISIONS

In HK$'million	2004 (Unaudited) Payment to the Government (note a)	Others	Total
Beginning of period	3,680	20	3,700
Additional provisions included within properties under development	2,369	7	2,376
Provisions settled	(1,675)	—	(1,675)
End of the period	4,374	27	4,401
Less: Amount classified as current liabilities	(1,200)	(27)	(1,227)
End of period	3,174	—	3,174

(a) Pursuant to the Cyberport Project Agreement, The Government of the Hong Kong Special Administrative Region ("HKSAR") shall be entitled to receive payments based on certain terms and conditions. Provision for payment to The Government of the HKSAR is included within properties under development as the amount is considered as a part of the development costs for the Cyberport Project. The provision is based on estimated sales proceeds of the residential portion of the project and the estimated development costs of the Cyberport Project. The estimated amount to be paid to The Government of the HKSAR during the forthcoming year is classified as current liabilities.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2004

12. CONVERTIBLE NOTES

In HK$'million	At September 30, 2004 (Unaudited)	At December 31, 2003 (Unaudited)
Repayable within a period		
- over five years	3,590	—
Provision for redemption premium	19	—
	3,609	—
Representing:		
HK$1,170 million interest free Tranche A note due in 2011	1,170	—
HK$2,420 million one percent interest per annum Tranche B note due in 2014	2,420	—
Provision for redemption premium	19	—
	3,609	—
Secured	—	—
Unsecured	3,609	—

Tranche A note in the amount of HK$1,170 million and Tranche B note in the amount of HK$2,420 million were issued at their face values as part of the Transaction described in note 1 above. The outstanding principal amount of the convertible notes or any part thereof may, at the discretion of PCCW, the holder of the notes, be converted into the ordinary shares of the Company, issued to PCCW (or as it may direct) at any time and from time to time on or after the date of issue (but on or prior to the maturity date) at the relevant conversion price (which is HK$2.25 per share in the case of Tranche A note and HK$3.60 per share in the case of Tranche B note, subject to adjustment). The Tranche A note may be redeemed at 100 percent of the outstanding principal amount, whilst the Tranche B note may be redeemed at 120 percent of the outstanding principal amount if conversion does not occur.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2004

13. ISSUED EQUITY

	The Group	
	Number of shares (Unaudited) (note a)	Issued equity (Unaudited) (note a) HK$'million
	1,764,459,873	3,176

(a) Due to the use of reverse acquisition basis of accounting, the amount of issued equity which includes share capital and share premium in the condensed consolidated balance sheet represents the amount of issued equity of the legal subsidiary, Ipswich Holdings Limited. The equity structure (i.e. the number and type of shares) reflects the equity structure of the legal parent, Pacific Century Premium Developments Limited.

(b) The following is provided to trace the movement in the share capital of the Company:

	The Company	
	Number of shares (Unaudited)	Nominal value (Unaudited) HK$'million
Authorised:		
Ordinary shares of HK$0.40 each at January 1, 2004	1,500,000,000	600
Cancellation of un-issued share capital	(338,734,594)	(135)
Capital reduction and share consolidation	(1,045,138,866)	(453)
Creation of additional shares	9,883,873,460	988
Ordinary shares of HK$0.10 each at September 30, 2004	10,000,000,000	1,000
Issued and fully paid:		
Ordinary shares of HK$0.40 each at January 1, 2004	1,161,265,406	464
Capital reduction and share consolidation	(1,045,138,866)	(453)
Issue of new shares on acquisition of the Property Group from PCCW	1,648,333,333	165
Ordinary shares of HK$0.10 each at September 30, 2004	1,764,459,873	176

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2004

14. CAPITAL COMMITMENTS

In HK$'million	At September 30, 2004 (Unaudited)	At December 31, 2003 (Unaudited)
Authorised and contracted for	**2,256**	2,741
Authorised but not contracted for	**2,207**	3,084
	4,463	5,825

15. CONTINGENT LIABILITIES

In HK$'million	At September 30, 2004 (Unaudited)	At December 31, 2003 (Unaudited)
Performance guarantee	**1**	1

16. CHARGES ON ASSETS AND BANKING FACILITIES

At the balance sheet date, the Group had the following pledged assets to secure banking facilities granted to the Group:

In HK$'million	At September 30, 2004 (Unaudited)	At December 31, 2003 (Unaudited)
Investment properties	**—**	3,888
Land and buildings	**—**	37
	—	3,925

Aggregate banking facilities as at September 30, 2004 were HK$20 million (2003: nil) of which the unused facilities amounted to HK$19 million (2003: nil).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2004

17. RELATED PARTY TRANSACTIONS

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(a) During the periods, the Group had the following significant transactions with related companies:

In HK$'million	Nine months ended September 30, 2004 (Unaudited)	Nine months ended September 30, 2003 (Unaudited)
Repayment of loan from ultimate holding company	**920**	—
Interest expenses paid or payable to fellow subsidiaries and the ultimate holding company	**38**	74
Corporate expenses recharged by a fellow subsidiary	**17**	33
Accommodation expenses recharged by a fellow subsidiary	**6**	12
Amount received and receivable in respect of services rendered	**48**	54
Amount received and receivable from the rental of investment properties to fellow subsidiaries	**46**	43
System integration charges paid or payable to a fellow subsidiary	**11**	27
Purchase of fixed assets from a fellow subsidiary	**158**	—

The above transactions were carried out after negotiations between the Group and the related parties in the ordinary course of business and on the basis of estimated market value as determined by the directors. 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.

(b) An unsecured interest bearing loan of HK$2,359 million from PCCW, the ultimate holding company, and a fellow subsidiary was assigned to the Company as part of the Transaction described in note 1 above in exchange for part of the convertible notes issued to PCCW.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2004

18. POST BALANCE SHEET EVENTS

The Company was informed by Asian Motion that it has sold through a placing agent (the "Sale"), 118,000,000 shares of the Company to not less than six investors which are independent third parties at a price of HK$2.18 per share on October 28, 2004. The Company has also entered into a subscription agreement with Asian Motion for the subscription of 118,000,000 new shares by Asian Motion (the "Subscription") at the price of HK$2.18 per share. Details of the Sale and the Subscription were set out in the joint announcement of PCCW and the Company dated October 28, 2004.

Prior to completion of the Sale and the Subscription, Asian Motion held approximately 79.99 percent of the issued shares of the Company. Upon completion of the Sale and the Subscription, it would hold approximately 74.97 percent of the issued shares of the Company (assuming no other changes to the issued share capital of the Company and the shares of Asian Motion in the Company).

The price of HK$2.18 per sale share was agreed after arm's length negotiations between the placing agent and Asian Motion. No adjustment to the conversion prices of the convertible notes issued by the Company was required as a result of the Sale and the Subscription.

19. COMPARATIVE FIGURES

The 2003 comparative figures presented in the consolidated financial statements are those of the Property Group. Certain of the 2003 comparative figures have been reclassified to conform with the current period's presentation.

GENERAL INFORMATION

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

As at September 30, 2004, the directors and chief executive of the Company and their associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"):

1. The Company

None of the directors, the chief executive of the Company or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company as at September 30, 2004.

2. Associated Corporations of the Company

A. Interests in PCCW Limited ("PCCW")

The table below sets out the aggregate long positions in the shares and underlying shares of PCCW (the ultimate holding company of the Company) of the directors and the chief executive of the Company as at September 30, 2004.

Name of director/chief executive	Number of ordinary shares: Personal interests	Number of ordinary shares: Family interests	Number of ordinary shares: Corporate interests	Number of ordinary shares: Other interests	Number of underlying shares held under equity derivatives	Total	Percentage of issued share capital
Li Tzar Kai, Richard	—	—	4,709,600 (Note 1(a))	1,746,122,668 (Note 1(b))	3,490,018 (Note 1(c))	1,754,322,286	32. 66%
Yuen Tin Fan, Francis	—	—	—	—	17,068,000 (Note 2)	17,068,000	0.32%
Lee Chi Hong, Robert	992,600 (Note 3(a))	511 (Note 3(b))	—	—	5,000,000 (Note 2)	5,993,111	0.11%
Alexander Anthony Arena	760,000	—	—	—	12,800,200 (Note 4)	13,560,200	0.25%
Hubert Chak	—	—	—	—	840,000 (Note 2)	840,000	0.02%

Notes:

1. (a) These interests were held by Pacific Century Diversified Limited ("PCD"), a wholly-owned subsidiary of Chiltonlink Limited, which was 100 percent owned by Li Tzar Kai, Richard.

   (b) These interests represented:

   (i) a deemed interest in 36,726,857 shares of PCCW held by Yue Shun Limited, a subsidiary of Hutchison Whampoa Limited ("HWL"). Cheung Kong (Holdings) Limited ("Cheung Kong") through certain subsidiaries held more than one-third of the issued share capital of HWL. Li Tzar Kai, Richard was a beneficiary of certain discretionary trusts which held interests in Cheung Kong and HWL. Li Tzar Kai, Richard was also interested in one-third of the issued share capital of two companies, which owned all the shares in the trustee companies which acted as trustees of such discretionary trusts. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 36,726,857 shares of PCCW held by Yue Shun Limited;

   (ii) a deemed interest in 20,354,286 shares of PCCW held by Pacific Century Group Holdings Limited ("PCGH"). Li Tzar Kai, Richard was the founder of certain trusts which held 100 percent interests in PCGH. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 20,354,286 shares of PCCW;

   (iii) a deemed interest in 1,526,094,301 shares of PCCW held by Pacific Century Regional Developments Limited ("PCRD"), a company in which PCGH had, through certain wholly-owned subsidiaries including Anglang Investments Limited, Pacific Century Group (Cayman Islands) Limited, Pacific Century International Limited and Borsington Limited, an aggregate 75.33 percent interest. Li Tzar Kai, Richard was the founder of certain trusts which held 100 percent interests in PCGH. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 1,526,094,301 shares of PCCW; and

   (iv) a deemed interest in 162,947,224 shares of PCCW held by a collective investment scheme in which PCD (a corporation 100 percent controlled by Li Tzar Kai, Richard - see above) was a holder.

   (c) This number represented interests under listed equity derivatives arising through corporations controlled by PCGH, in which Li Tzar Kai, Richard was deemed interested as the founder of certain trusts which held 100 percent of PCGH, and comprised:

   (i) an interest in 679,000 underlying shares held by PCRD in the form of 67,900 American depositary receipts ("ADRs"), each representing 10 shares of PCCW; and

   (ii) an interest in respect of 2,811,018 underlying shares arising as a result of the holding of an aggregate of US$14,000,000 of convertible bonds issued by a wholly-owned subsidiary of PCCW which were held by PCGH and a wholly-owned subsidiary of Pacific Century Insurance Holdings Limited ("PCIHL") (a company in which PCRD had a 45.23 percent interest) and were convertible into 2,811,018 shares of PCCW.

GENERAL INFORMATION

2. These interests represented the interests in underlying shares in respect of share options granted by PCCW to the directors and the chief executive as beneficial owners, details of which are set out as follows:-

Name of director/chief executive	Date of grant	Vesting period	Exercisable period	Exercise price HK$	Number of options Outstanding at 01.01.2004	Number of options Outstanding at 09.30.2004
Yuen Tin Fan, Francis	08.28.1999	08.17.2000 to 08.17.2004	08.17.2003 to 08.17.2009	11.78	2,134,000	2,134,000
	08.26.2000	08.26.2001 to 08.26.2005	08.26.2001 to 08.26.2010	60.12	3,200,000	3,200,000
	02.20.2001	08.26.2001 to 08.26.2005	08.26.2001 to 01.22.2011	16.84	3,200,000	3,200,000
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.35	8,534,000	8,534,000
Lee Chi Hong, Robert	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.35	5,000,000	5,000,000
Alexander Anthony Arena	08.28.1999	08.17.2000 to 08.17.2004	08.17.2000 to 08.17.2009	11.78	3,200,000	3,200,000
	08.26.2000	08.26.2001 to 08.26.2005	08.26.2001 to 08.26.2010	60.12	1,600,000	1,600,000
	02.20.2001	08.26.2001 to 08.26.2005	08.26.2001 to 01.22.2011	16.84	1,600,000	1,600,000
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.35	6,400,000	6,400,000
Hubert Chak	11.06.1999	10.25.2000 to 10.25.2002	10.25.2000 to 10.25.2009	22.76	300,000	300,000
	02.20.2001	01.22.2002 to 01.22.2006	01.22.2002 to 01.22.2011	16.84	300,000	300,000
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.35	240,000	240,000

3. (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.

4. These interests represented Alexander Anthony Arena's beneficial interest in: (i) 200 underlying shares held in the form of 20 ADRs which constituted listed equity derivatives; and (ii) 12,800,000 underlying shares in respect of share options granted by PCCW to Alexander Anthony Arena as beneficial owner, details of which are set out in Note 2 above.

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

Li Tzar Kai, Richard was deemed under the SFO as at September 30, 2004 to have short positions held pursuant to equity derivatives in respect of an aggregate of 325,498,469 underlying shares, representing 6.06 percent of the total issued share capital of PCCW. Details of the short positions are as follows:

(a) a short position in respect of 91,764,705 underlying shares in PCCW (such shares being beneficially held by PCRD) which arose under certain unlisted physically settled equity derivatives issued by PCRD pursuant to which the derivative holder has the right to call for the delivery of 91,764,705 shares in PCCW. Li Tzar Kai, Richard's deemed short position arose as the founder of certain trusts which held 100 percent of PCGH of which PCRD is a controlled corporation under the SFO;

(b) a short position in respect of 229,411,764 underlying shares in PCCW (such shares being beneficially held by PCRD) which arose under certain unlisted physically settled equity derivatives issued by PCRD pursuant to which the derivative holders have the right to call for the delivery of 229,411,764 shares in PCCW. Li Tzar Kai, Richard's deemed short position arose as the founder of certain trusts which held 100 percent of PCGH of which PCRD is a controlled corporation under the SFO; and

(c) through PCD (a corporation 100 percent controlled by Li Tzar Kai, Richard - see above) a short position in respect of 4,322,000 underlying shares in PCCW which arose under an agreement entered into with So Chak Kwong, Jack, a director of PCCW, such interest constituted, for the purposes of the SFO, a short position of a corporation controlled by Li Tzar Kai, Richard under an unlisted physically settled equity derivative pursuant to which such shares in PCCW will be transferred to So Chak Kwong, Jack in two equal annual installments on July 25, 2005 and July 25, 2006.

C. Interests in PCCW Capital Limited

PCGH and a subsidiary of PCIHL held, respectively, US$4,000,000 and US$10,000,000 of convertible bonds issued by PCCW Capital Limited, an associated corporation of the Company. Accordingly, Li Tzar Kai, Richard was deemed to have an aggregate interest in US$14,000,000 of convertible bonds issued by PCCW Capital Limited by virtue of being the founder of certain trusts which held 100 percent of PCGH.

GENERAL INFORMATION

Save as disclosed above, none of the directors, the chief executive of the Company 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.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at September 30, 2004, the following shareholder (other than directors or the chief executive of the Company) had interests in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

A. Interests in the Company

Name of shareholder	Number of shares/ underlying shares held	Percentage of issued share capital
PCCW	2,603,555,555 (Note)	147.55%

Note:

These interests represented:

(i) an interest in 1,411,333,333 shares in the Company held by Asian Motion Limited which is a wholly-owned subsidiary of PCCW; and

(ii) an interest in respect of 1,192,222,222 underlying shares in the Company held by PCCW arising as a result of the holding of an aggregate of HK$3,590 million convertible notes issued by the Company comprising:

- HK$1,170 million of Tranche A Note which was convertible into 520,000,000 shares of the Company; and
- HK$2,420 million of Tranche B Note which was convertible into 672,222,222 shares of the Company.

B. Short Positions in the Shares and Underlying Shares of the Company

As at September 30, 2004, the Company had not been notified of any persons who had a short position in the shares and underlying shares of the Company.

Save as disclosed above, the Company had not been notified of any other persons (other than directors or the chief executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at September 30, 2004.

SHARE OPTION SCHEME

As disclosed in the Annual Report for the year ended March 31, 2004, the Company's share option scheme ("Share Scheme"), which is valid and effective for a period of ten years from the date of adoption, was approved and adopted on March 17, 2003. There are no changes of terms in the Share Scheme. Details of the Share Scheme were set out in note 32 to the financial statements of the aforesaid Annual Report.

No options have been granted or exercised pursuant to the Share Scheme since its adoption.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the nine months ended September 30, 2004.

CORPORATE GOVERNANCE

The Company's Audit Committee has reviewed the unaudited interim financial statements of the Group for the nine months ended September 30, 2004 with the Company's management and the auditors and recommended its adoption by the Board. The Audit Committee has four members comprising of all the independent non-executive directors. The Committee members possess diversified professional experience including that of accounting and finance.

The interim financial statements are unaudited but have been reviewed by the Audit Committee and the Company's auditors, PricewaterhouseCoopers, in accordance with Statement of Auditing Standard 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants.

The Company has adopted its Code of Conduct for Securities Transactions by Directors and Senior Management ("PCPD Code") on terms no less exacting than the required standard in the Model Code set out in Appendix 10 to the Listing Rules. Having made specific enquiry, all the directors confirmed that they have complied with the required standard set out in the Model Code and the PCPD Code for the period ended September 30, 2004.

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the nine months ended September 30, 2004, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules, save that non-executive directors of the Company are not appointed for a specific term of office, but are subject to retirement by rotation and re-election at annual general meetings in accordance with the Bye-laws of the Company.

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 0432.

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)*
Yuen Tin Fan, Francis *(Deputy Chairman)*
Lee Chi Hong, Robert *(Chief Executive Officer)*
Alexander Anthony Arena
Hubert Chak

Non-Executive Director

Dr Allan Zeman, GBS, JP

Independent Non-Executive Directors

Ronald James Blake, OBE, JP
Cheung Kin Piu, Valiant
Tsang Link Carl, Brian
Prof Wong Yue Chim, Richard, SBS, JP

COMPANY SECRETARY

Chu Mee Lai, Helen

REGISTERED OFFICE

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Bermuda

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WEBSITE

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(Incorporated in Bermuda with limited liability)

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UNITS 701-705, LEVEL 7, CYBERPORT 3, 100 CYBERPORT ROAD
HONG KONG
TELEPHONE: 2514 3990 FACSIMILE: 2514 3945

盈科大衍地產發展有限公司
(於百慕達註冊成立的有限公司)

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