

# REPORT OF THE DIRECTORS

The directors present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (the “Group”) for the year ended December 31, 2004.

## PRINCIPAL ACTIVITIES

The Group is principally engaged in the development of premium properties in Asia and the investment in premium-grade buildings in Asia or substantial parts thereof.

## 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 change the Company’s name from Dong Fang Gas Holdings Limited to Pacific Century Premium Developments Limited. The change of name took effect on May 10, 2004.

The Company 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.

## MAJOR TRANSACTIONS

- (1) On March 5, 2004, PCCW Limited (“PCCW”, a Hong Kong company whose shares are listed on The Stock Exchange of Hong Kong Limited) 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 located in Beijing, the People’s Republic of China, 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 (“CPL”) (the developer of the Cyberport project); and
  - (ii) the property situated at Ko Shing Street and Wo Fung Street in Western District, 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 Asian Motion Limited (“Asian Motion”), a wholly-owned subsidiary of PCCW, 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 these are set out in the Company’s circular dated April 2, 2004.

- (2) On May 10, 2004, 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 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.
- (3) On November 19, 2004, the Company and its indirect wholly-owned subsidiary Partner Link Investments Limited (“Partner Link”) entered into a provisional agreement for the sale of PCCW Tower in Quarry Bay, Hong Kong to an independent third party for a cash consideration of HK\$2,808 million. The sale was completed on February 7, 2005. Details of the sale were set out in the Company’s circular dated December 30, 2004.

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### SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 18 to the consolidated financial statements.

### RESULTS

The results of the Group for the year ended December 31, 2004 are set out in the consolidated financial statements on page 56.

The directors have recommended the payment of a final dividend of 7 Hong Kong cents per ordinary share for the year ended December 31, 2004 to shareholders whose names appear on the register of members of the Company on May 12, 2005 and payable on or around May 19, 2005. The register of members will be closed from May 6, 2005 to May 9, 2005, both days inclusive.

### RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 57 and note 26 to the consolidated 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 126.

### FIXED ASSETS

Details of movements in fixed assets of the Group during the year are set out in note 15 to the consolidated financial statements.

### SHARE CAPITAL

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

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2004, the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30 percent of the Group's total turnover. The aggregate purchase attributable to the Group's five largest suppliers was approximately 58 percent of the Group's total purchases, while the purchases attributable to the Group's largest supplier were approximately 35 percent of the Group's total purchases.

One of the major suppliers, Paul Y. - ITC General Contractors Limited was a connected person of the Company under the Rules Governing the Listing of Securities on The Stock Exchanges of Hong Kong Limited (the "Listing Rules") during the year as it had been controlled by Dr Chan Kwok Keung, Charles, an ex-director of the Company within the past 12 months.

Save as disclosed above, 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  | (resigned on May 10, 2004)  |

### Non-Executive Director

|                         |                             |
|-------------------------|-----------------------------|
| Dr Allan Zeman, GBS, JP | (appointed on June 7, 2004) |
|-------------------------|-----------------------------|

### Independent Non-Executive Directors

|                                      |                                 |
|--------------------------------------|---------------------------------|
| Ronald James Blake, OBE, JP          | (appointed on May 10, 2004)     |
| Cheung Kin Piu, Valiant              | (appointed on October 25, 2004) |
| Tsang Link Carl, Brian               |                                 |
| Prof Wong Yue Chim, Richard, SBS, JP | (appointed on July 9, 2004)     |
| Zhao Wenfu                           | (resigned on May 10, 2004)      |

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In accordance with Bye-law 86(2) of the Company's Bye-laws, Cheung Kin Piu, Valiant shall retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

In accordance with Bye-laws 87(1) and (2) of the Company's Bye-laws, Li Tzar Kai, Richard, Yuen Tin Fan, Francis and Tsang Link Carl, Brian shall retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

### DIRECTORS' SERVICE CONTRACTS

Lee Chi Hong, Robert entered into a service contract with an indirect 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' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at December 31, 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 or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were recorded in the register required to be kept under section 352 of the SFO (the "Register"); or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules:

#### 1. The Company

None of the directors or 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 December 31, 2004.

## 2. Associated Corporations of the Company

### A. Interests in PCCW

The table below sets out the aggregate long positions of the directors and the chief executive of the Company in the shares and underlying shares of PCCW, the ultimate holding company of the Company, as at December 31, 2004.

| Name of director/<br>chief executive | Number of ordinary shares |                     |                          |                              | Number of<br>underlying<br>shares held<br>under equity<br>derivatives | Total         | Percentage<br>of issued<br>share capital |
|--------------------------------------|---------------------------|---------------------|--------------------------|------------------------------|---|---------------|--|
|                                      | Personal<br>interests     | Family<br>interests | Corporate<br>interests   | Other<br>interests           |   |               |  |
| Li Tzar Kai, Richard                 | —                         | —                   | 4,709,600<br>(Note 1(a)) | 1,746,122,668<br>(Note 1(b)) | 3,490,018<br>(Note 1(c))  | 1,754,322,286 | 32.65%                                   |
| Yuen Tin Fan, Francis                | —                         | —                   | —                        | —                            | 17,068,000<br>(Note 2)  | 17,068,000    | 0.32%                                    |
| Lee Chi Hong, Robert                 | 992,600<br>(Note 3(a))    | 511<br>(Note 3(b))  | —                        | —                            | 5,000,000<br>(Note 2)   | 5,993,111     | 0.11%                                    |
| Alexander Anthony Arena              | 760,000                   | —                   | —                        | —                            | 12,800,200<br>(Note 4)  | 13,560,200    | 0.25%                                    |
| Hubert Chak                          | —                         | —                   | —                        | —                            | 840,000<br>(Note 2)   | 840,000       | 0.02%                                    |

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## 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 45.11 percent interest) and were convertible into 2,811,018 shares of PCCW.

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 as at December 31, 2004, details of which are set out as follows:

| Name of director/<br>chief executive | Date of<br>grant | Vesting<br>period           | Exercisable<br>period       | Exercise price<br>HK\$ | Number of options            |                              |
|--------------------------------------|------------------|-----------------------------|-----------------------------|------------------------|------------------------------|------------------------------|
|                                      |                  |                             |                             |                        | Outstanding at<br>01.01.2004 | Outstanding at<br>12.31.2004 |
| Yuen Tin Fan, Francis                | 08.28.1999       | 08.17.2000 to<br>08.17.2004 | 08.17.2003 to<br>08.17.2009 | 11.78                  | 2,134,000                    | 2,134,000                    |
|                                      | 08.26.2000       | 08.26.2001 to<br>08.26.2005 | 08.26.2001 to<br>08.26.2010 | 60.12                  | 3,200,000                    | 3,200,000                    |
|                                      | 02.20.2001       | 08.26.2001 to<br>08.26.2005 | 08.26.2001 to<br>01.22.2011 | 16.84                  | 3,200,000                    | 3,200,000                    |
|                                      | 07.25.2003       | 07.25.2004 to<br>07.25.2006 | 07.25.2004 to<br>07.23.2013 | 4.35                   | 8,534,000                    | 8,534,000                    |
| Lee Chi Hong, Robert                 | 07.25.2003       | 07.25.2004 to<br>07.25.2006 | 07.25.2004 to<br>07.23.2013 | 4.35                   | 5,000,000                    | 5,000,000                    |
| Alexander Anthony Arena              | 08.28.1999       | 08.17.2000 to<br>08.17.2004 | 08.17.2000 to<br>08.17.2009 | 11.78                  | 3,200,000                    | 3,200,000                    |
|                                      | 08.26.2000       | 08.26.2001 to<br>08.26.2005 | 08.26.2001 to<br>08.26.2010 | 60.12                  | 1,600,000                    | 1,600,000                    |
|                                      | 02.20.2001       | 08.26.2001 to<br>08.26.2005 | 08.26.2001 to<br>01.22.2011 | 16.84                  | 1,600,000                    | 1,600,000                    |
|                                      | 07.25.2003       | 07.25.2004 to<br>07.25.2006 | 07.25.2004 to<br>07.23.2013 | 4.35                   | 6,400,000                    | 6,400,000                    |
| Hubert Chak                          | 11.06.1999       | 10.25.2000 to<br>10.25.2002 | 10.25.2000 to<br>10.25.2009 | 22.76                  | 300,000                      | 300,000                      |
|                                      | 02.20.2001       | 01.22.2002 to<br>01.22.2006 | 01.22.2002 to<br>01.22.2011 | 16.84                  | 300,000                      | 300,000                      |
|                                      | 07.25.2003       | 07.25.2004 to<br>07.25.2006 | 07.25.2004 to<br>07.23.2013 | 4.35                   | 240,000                      | 240,000                      |

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

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.



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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

Under the SFO, Li Tzar Kai, Richard was taken as at December 31, 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 PCRDC) which arose under certain unlisted physically settled equity derivatives issued by PCRDC 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 PCRDC 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 PCRDC) which arose under certain unlisted physically settled equity derivatives issued by PCRDC 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 PCRDC 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 commencing from the second anniversary of his employment with PCCW.

C. Interests in PCCW Capital Limited

PCGH and a subsidiary of PCIHL held US\$4,000,000 and US\$10,000,000 respectively of convertible bonds issued by PCCW Capital Limited, a wholly-owned subsidiary of PCCW and 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.

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

Particulars of the Company's share option scheme are set out in note 25 to the consolidated financial statements. Details of the options which have been granted to the following category of participants under the share option scheme during the year ended December 31, 2004 are as follows:

### 1. Outstanding options at January 1, 2004 and at December 31, 2004

| Category of participant               | Date of grant | Vesting period                | Exercisable period          | Exercise price<br>HK\$ | Number of options            |                              |
|---------------------------------------|---------------|-------------------------------|-----------------------------|------------------------|------------------------------|------------------------------|
|                                       |               |                               |                             |                        | Outstanding at<br>01.01.2004 | Outstanding at<br>12.31.2004 |
| Directors of the Company's subsidiary | 12.20.2004    | Fully vested on<br>12.20.2004 | 12.20.2004<br>to 12.19.2014 | 2.375                  | —                            | 10,000,000                   |

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

### 2. Options granted during the year ended December 31, 2004

| Category of participant               | Date of grant | Vesting period                | Exercisable period          | Exercise price<br>HK\$ | Number of<br>options granted | Closing price of the<br>shares immediately<br>before the date on<br>which the options<br>were granted |
|---------------------------------------|---------------|-------------------------------|-----------------------------|------------------------|------------------------------|---|
|                                       |               |                               |                             |                        |                              | HK\$  |
| Directors of the Company's subsidiary | 12.20.2004    | Fully vested on<br>12.20.2004 | 12.20.2004<br>to 12.19.2014 | 2.375                  | 10,000,000                   | 2.325   |

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

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The share options granted are not recognised in the financial statements until they are exercised. The weighted average value per option granted in 2004 estimated at the date of grant using the trinomial option pricing model was HK\$1.29. The weighted average assumptions used are as follows:

|                             | 2004         | 2003 |
|-----------------------------|--------------|------|
| Risk-free interest rate     | 3.95 percent | —    |
| Expected life (in years)    | 10           | —    |
| Volatility                  | 0.50         | —    |
| Expected dividend per share | —            | —    |

The trinomial option pricing model was developed for use in estimating the fair value of traded options that are fully transferable. Such an option pricing model requires input of highly subjective assumptions, including the expected stock price volatility. Because the Company's share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the trinomial option pricing model does not necessarily provide a reliable measure of the fair value of the share options.

### 3. Options exercised during the year ended December 31, 2004

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

### 4. Options cancelled or lapsed during the year ended December 31, 2004

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

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

Save as disclosed in the section headed "Major Customers and Suppliers" in this report, no contracts of significance (as defined in Appendix 16 of the Listing Rules) to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at December 31, 2004, the directors had the following interests in businesses apart from the Group's business, which compete or are likely to compete, either directly or indirectly, with the Group's business:

| Name of director      | Names of investee companies   | Nature of business  | Nature of interests   |
|-----------------------|---|---|---|
| Li Tzar Kai, Richard  | Cheung Kong (Holdings) Limited ("Cheung Kong") and its subsidiaries ("Cheung Kong Group") | Property development and investment, hotel and serviced suite operation, property and project management and investment in securities | Deemed interests in Cheung Kong (Note 1)  |
|                       | Hutchison Whampoa Limited ("HWL") and its subsidiaries ("Hutchison Group")                | Ports and related services, telecommunications, property and hotels, retail and manufacturing and energy and infrastructure           | Certain personal and deemed interests in HWL (Note 2)   |
| Yuen Tin Fan, Francis | Kee Shing (Holdings) Limited ("KSH") and its subsidiaries                                 | Sale of chemicals and metals, property and securities investment  | Non-executive director and deemed interests of 22.84% of KSH through a controlled corporation and as founder of a trust |

### Notes:

1. Certain business of the Cheung Kong Group may compete with certain aspects of the business of the Group. Li Tzar Kai, Richard is one of the discretionary beneficiaries of certain discretionary trusts which hold units in unit trusts which in turn are interested in certain shares of Cheung Kong. Li Tzar Kai, Richard holds one-third of the issued share capitals of two companies, which own all the shares in the trustee companies which act as trustees of such discretionary trusts and unit trusts. These trustee companies perform their functions as trustees independently without any reference to Li Tzar Kai, Richard. Notwithstanding the above, his being a discretionary beneficiary and that the trustee companies act independently of him, the Company considers that Li Tzar Kai, Richard is not able to exert control or influence over the Cheung Kong Group.

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

In addition, Li Tzar Kai, Richard, Yuen Tin Fan, Francis, Alexander Anthony Arena, and Lee Chi Hong, Robert are directors of certain private companies (the "Private Companies"), which are engaged in property development and investment in Hong Kong (a development called Gough Hill) and Japan (investment in certain residential properties and commercial building).

Further, Li Tzar Kai, Richard and Alexander Anthony Arena are directors of PCRDR. PCRDR acts as an investment holding company of, among others, interests in PCCW and certain property development interests in Singapore and India.

The business interests of the Private Companies in Hong Kong are not significant when compared to the business of the Group, and it is unlikely that such businesses will compete with the business of the Group. The businesses in Japan, Singapore and India are also unlikely to compete with the existing business of the Group.

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

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

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

## INTERESTS AND SHORT POSITIONS IN SHARES OF SUBSTANTIAL SHAREHOLDERS

As at December 31, 2004, the following shareholder (other than a director or chief executive of the Company) had an interest in the shares or 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/<br>underlying shares held | Percentage of issued<br>share capital |
|---------------------|---|---------------------------------------|
| PCCW                | 2,153,555,555 ( <i>Note</i> )               | 114.40%                               |

*Note:*

These interests represented:

- (i) an interest in 961,333,333 shares in the Company held by Asian Motion; 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 is convertible into 520,000,000 shares of the Company; and
  - HK\$2,420 million of Tranche B Note which is convertible into 672,222,222 shares of the Company.

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

As at December 31, 2004, the Company had not been notified of any other persons who had a short position in the shares or underlying shares of the Company.

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 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 December 31, 2004.

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### MANAGEMENT CONTRACTS

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

### RETIREMENT BENEFITS SCHEMES

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

### MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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. All the directors have confirmed that they have complied with the required standard set out in the Model Code and the PCPD Code for the year ended December 31, 2004.

### CODE OF BEST PRACTICE

The Company has complied with the Code of Best Practice as set out in the old Appendix 14 to the Listing Rules throughout the year ended December 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.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers those non-executive directors to be independent.

### PUBLIC FLOAT

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules based on information that is publicly available to the Company and within the knowledge of the Company's directors.

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

## 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 32 to the consolidated financial statements.

## CONNECTED TRANSACTIONS

Since the publication of the Company's Annual Report for the year ended March 31, 2004, the following members of the Group entered into (or continued to be party to) certain transactions which were "connected transactions" or "continuing connected transactions" as defined in the Listing Rules and which are subject to disclosure obligations under Chapter 14A of the Listing Rules. Details of such transactions are as follows:

### A. CONNECTED TRANSACTIONS

The following transactions have entered into between the Group and the PCCW Group relating to the Cyberport project during the period from May 10, 2004 to December 31, 2004. Each of such transactions (other than that under item (1) below) was exempt from any reporting and announcement requirements under the Listing Rules but reporting and announcement of them became necessary following the requirement of the Stock Exchange to aggregate them pursuant to Rule 14A.25 of the Listing Rules.

|                                  |   |  |
|----------------------------------|---|--|
| (1) Date of commencement of work | : | June 24, 2004  |
| Parties                          | : | (i) CPL; and<br>(ii) PCCW-HKT Technical Services Limited ("PTSL"), a wholly-owned subsidiary of PCCW   |
| Purpose                          | : | PTSL will design, supply, install, test and commission, and provide training for the use of, the LED Display Systems for The Arcade at Cyberport |
| Consideration                    | : | HK\$6,824,350  |



## REPORT OF THE DIRECTORS

- (2) Date of commencement of work : September 20, 2004
- Parties : (i) CPL; and  
(ii) Unihub Limited (“Unihub”), a wholly-owned subsidiary of PCCW
- Purpose : The design and build of a home portal system by Unihub for the residential portion of the Cyberport project
- Consideration : HK\$1,113,882
- (3) Date of agreement : October 12, 2004
- Parties : (i) CPL; and  
(ii) PTSL
- Purpose : The supply by PTSL of audio-visual equipment for the control room of The Arcade at Cyberport
- Consideration : HK\$3,770,957
- (4) Date of commencement of work : November 25, 2004
- Parties : (i) Cyber-Port Management Limited (“CPML”); and  
(ii) PCCW-HKT Business Services Limited, a wholly-owned subsidiary of PCCW
- Purpose : Alteration and addition works for the re-wiring of telephone cable for Phase R1A of the residential portion of the Cyberport project
- Consideration : HK\$36,112
- (5) Date of agreement : December 30, 2004
- Parties : (i) CPML; and  
(ii) Unihub
- Purpose : The enhancement of CPML’s cost management system by Unihub
- Consideration : HK\$139,200

## B. CONTINUING CONNECTED TRANSACTIONS

- (1) As disclosed in the Company's Annual Report for the year ended March 31, 2004, 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"), an indirect subsidiary of PCCW. HKT and PCPD Facilities Management Limited (formerly PCCW Facilities Management Limited) ("PCPD FM") orally agreed on September 1, 2003 that PCPD FM would provide a range of services to Reach under the Shared Services Agreement on behalf of HKT. On April 29, 2004, HKT and PCPD FM entered into an agreement ("Renewal Agreement"), pursuant to which the services would be provided to Reach for a term of 39 months commencing from October 1, 2003 and ending on December 31, 2006.

The service fee paid to PCPD FM for the period from May 10, 2004 to December 31, 2004 was approximately HK\$2.4 million.

- (2) On December 6, 2004, PCPD FM entered into an agreement with PCCW Services Limited ("PCCW Services"), a wholly-owned subsidiary of PCCW pursuant to which PCPD FM would provide facilities management, project management, corporate and asset management services at a fee calculated in accordance with the agreement, subject to a cap of HK\$65 million. Details of this agreement were set out in the Company's announcement dated December 6, 2004.
- (3) As disclosed in the Company's Annual Report for the year ended March 31, 2004, PCPD FM has been providing asset, property and facilities management services and corporate services to PCCW Services pursuant to an oral agreement made on October 1, 2003. Pursuant to a written agreement dated April 29, 2004 made between PCPD FM and PCCW Services, PCCW Services would reimburse to PCPD FM in full all staff salary and staff associated cost attributable to the services rendered. The service fee charged by PCPD FM for the period from May 10, 2004 to December 31, 2004 was approximately HK\$24 million. The agreement was replaced by the agreement disclosed in item (2) above.

## REPORT OF THE DIRECTORS

(4) As disclosed in the Company's Annual Report for the year ended March 31, 2004 and announcement dated December 6, 2004, Partner Link has entered into the following leases with PCCW Services in respect of PCCW Tower.

- |     |               |   |  |
|-----|---------------|---|--|
| (a) | Date of lease | : | Different months in 2003   |
|     | Premises      | : | 14th, 15th, 27th, 29th, 33rd, 34th, 39th to 42nd floors and part of the 20th floor and 32nd floor of PCCW Tower    |
|     | Term          | : | From different months in 2003 to December 31, 2005   |
|     | Consideration | : | Aggregate monthly rental of HK\$3,183,536 (exclusive of government rates, air-conditioning and management charges) |
| (b) | Date of lease | : | May 10, 2004   |
|     | Premises      | : | Use of carparking spaces of PCCW Tower   |
|     | Term          | : | From May 10, 2004 to December 31, 2005   |
|     | Consideration | : | Monthly rental of HK\$135,000  |
| (c) | Date of lease | : | June 1, 2004   |
|     | Premises      | : | 17th and 18th floors of PCCW Tower   |
|     | Term          | : | 19 months from June 1, 2004 to December 31, 2005   |
|     | Consideration | : | Monthly rental of HK\$594,090 (including air-conditioning charges and management fee)                              |
| (d) | Date of lease | : | August 1, 2004   |
|     | Premises      | : | Units 2303 and 3101 of PCCW Tower  |
|     | Term          | : | 17 months from August 1, 2004 to December 31, 2005   |
|     | Consideration | : | Monthly rental of HK\$97,029.60 (including air-conditioning charges and management fee)                            |

As set out under "Major Transactions" above, the Company had completed the disposal of PCCW Tower on February 7, 2005 and hence the above leases ceased to be connected transactions of the Company as from that date.

- (5) As disclosed in the Company's Annual Report for the year ended March 31, 2004, pursuant to an agreement dated April 30, 2002, PCCW Services sub-licensed level 8 of Cyberport 2 (Phase C1) to PCPD Services for office use for a term of 5 years 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 to PCPD Services for a term of 3 years and 7 months from 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\$500,000.

The independent non-executive directors of the Company, have reviewed and confirmed that the continuing connected transactions as set out above have been entered into:

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

In addition, the auditors of the Company have confirmed to the Board in writing, in respect of the continuing connected transactions disclosed above, that:

- (i) the transactions referred to in items (2), (4)(c) and (d) had been approved by the Board (*Note*);
- (ii) all of the transactions were entered into in accordance with the terms of the relevant agreements governing the transactions;
- (iii) the transactions referred to in items (2) and (3) involved the provision of goods and services and were in accordance with the relevant pricing policies of the Group; and
- (iv) the transactions referred to in items (2) and (3) did not exceed the cap disclosed in the Company's announcements dated December 6, 2004 and May 6, 2004; the other transactions were property leases with fixed sum rentals. With respect to the transaction referred to in item (1), as the agreement was entered into prior to the completion of the acquisition of the Property Group in May 2004, no cap was required to be stipulated therein.

*Note:* The Company notes that the other transactions had been entered into by the Group prior to the completion of the acquisition of the Property Group in May 2004, and therefore they did not constitute connected transactions at the time they were entered into and no Board approval was required.

## REPORT OF THE DIRECTORS

### AUDITORS

Deloitte Touche Tohmatsu acted as the auditors of the Company in respect of the financial year ended March 31, 2004. At the annual general meeting of the Company held on September 10, 2004, Deloitte Touche Tohmatsu retired as auditors of the Company and PricewaterhouseCoopers was appointed as the new auditors of the Company.

The financial statements for the financial year ended December 31, 2004 have been audited by PricewaterhouseCoopers who will retire upon conclusion of the forthcoming annual general meeting. A resolution for the re-appointment of PricewaterhouseCoopers as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

**YUEN Tin Fan, Francis**

*Deputy Chairman*

Hong Kong, March 30, 2005