NOTES TO THE FINANCIAL STATEMENTS

December 31, 2004 (Amount expressed in Hong Kong dollars unless otherwise stated)

1. GROUP ORGANISATION

On March 5, 2004, PCCW Limited ("PCCW"), which now is 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 (together 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 direct 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, as discussed in note 23(b)(ii)); 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 then became a subsidiary of PCCW. The Company was subsequently renamed Pacific Century Premium Developments Limited.

After the Date of Completion, the Company and its subsidiaries (the "Group") is principally engaged in the development and management of property and infrastructure and owns an investment portfolio that includes premium-grade buildings in Hong Kong and Beijing.

The Company announced on November 2, 2004 that the financial year end date of the Company would be changed from March 31 to December 31 each year. This facilitates the preparation of consolidated financial statements of PCCW, which will include the consolidated financial statements of the Company.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

a. Statement of compliance

The financial statements have been prepared in accordance with applicable Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong ("HK GAAP") and the disclosure requirements of the Hong Kong Companies Ordinance.

b. Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost convention modified by the revaluation of investment properties.

c. Recently issued accounting standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after January 1, 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended December 31, 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

d. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to December 31 each year. Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2004 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

d. Basis of consolidation - Continued

Under HK GAAP, 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 then subsidiaries (the "DFG Group") is deemed to have been acquired by the Property Group as at May 10, 2004. These consolidated financial statements have been prepared as a continuation of the consolidated financial statements of the Property Group and accordingly,

(i) 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;

(ii) the surplus / deficit and other equity balances recognised in these consolidated financial statements are the surplus / deficit and other equity balances of the Property Group;

(iii) 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

(iv) comparative information presented is that of the Property Group for the year ended December 31, 2003.

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, initially estimated at approximately HK$59 million, was adjusted to HK$84 million upon finalisation of the fair value of the investment based on the signing of the final sale and purchase agreement with See Hup Seng Limited (see note 3), 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.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

d. Basis of consolidation - Continued

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 these subsidiaries of the DFG Group is accounted for as other investments and stated at fair value of approximately HK$51 million as at December 31, 2004 and recorded as "investment in unconsolidated subsidiaries" under current assets in the consolidated balance sheet.

During the reporting period, the unconsolidated subsidiaries recorded:

(i) turnover of approximately HK$16 million (unaudited) for the period from April 1, 2004 to May 10, 2004 and approximately HK$87 million (unaudited) for the period from May 11, 2004 to December 31, 2004 while the audited results for the year ended March 31, 2004 shows the turnover for the year ended March 31, 2004 was approximately HK$149 million.

(ii) profit after taxation of approximately HK$2 million (unaudited) for the period from April 1, 2004 to May 10, 2004 and loss after taxation of approximately HK$92 million (unaudited) for the period from May 11, 2004 to December 31, 2004 while the audited results for the year ended March 31, 2004 shows the loss after taxation for the year ended March 31, 2004 was approximately HK$142 million.

e. 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2004 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

e. Revenue recognition - Continued

(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.

(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.

f. 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(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(i). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 2(e)(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.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

g. 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(i)). The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. 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	2 to 10 years

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.

h. 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 FINANCIAL STATEMENTS

December 31, 2004 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

h. 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.

i. 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;
— goodwill;
— investments in subsidiaries; and
— investment in unconsolidated 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).

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

i. Impairment of assets - Continued

(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.

j. 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.

k. Goodwill

Goodwill arising on consolidation represents the excess of the cost of an acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. Goodwill arising on acquisition since January 1, 2004 is capitalised and amortised on a straight-line basis over its useful economic life.

The goodwill arising from the acquisition of the DFG Group in the Transaction (see note 2(d)), is amortised to the consolidated income statement on a straight-line basis over its estimated useful life of 20 years.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2004 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

l. 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(i)). The results of subsidiaries are recognised by the Company to the extent of dividends received and receivable at the balance sheet date.

m. 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. Investments in unconsolidated subsidiaries of the Group are accounted for as stated in note 2(d) to the financial statements.

In the Company's balance sheet, investments in unconsolidated subsidiaries are stated at cost less any impairment loss (see note 2(i)).

n. Construction contracts

The accounting policy for contract revenue is set out in note 2(e)(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.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

n. Construction contracts - Continued

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".

o. Cash and 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.

p. 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2004 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

q. Borrowing costs

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

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

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

r. 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.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

s. 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 such schemes are generally held in separate trustee – administered funds. The schemes are generally funded by payments from the relevant companies of the PCCW Group including the Group and, in some cases, employees themselves, taking 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.

The Group bears its attributable share of retirement costs of the defined benefit schemes operated by PCCW. 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2004 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

t. 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 in 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 consolidated 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.

u. 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.

v. Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing particular products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), and which is subject to risks and 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, an indirect wholly-owned subsidiary of the Company, 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 was arrived at after arm's length negotiations. The transaction has not yet been completed to the date of these financial statements and the Group's investment in the gas operations are included in the consolidated balance sheet as an investment in unconsolidated subsidiaries.

On November 19, 2004, Partner Link Investments Limited ("Partner Link"), an indirect wholly-owned subsidiary of the Company, entered into a provisional sales and purchase agreement with Richly Leader Limited (the "Purchaser"), pursuant to which Partner Link agreed to enter into a formal sales and purchase agreement (the "Property Sales and Purchase Agreement") for the disposal of the property known as PCCW Tower (the "Property") for a consideration of HK$2,808 million in cash. The consideration is arrived at after arm's length negotiations. Under the Property Sales and Purchase Agreement, on completion of the disposal of the Property, there is a rental guarantee pursuant to which Partner Link will undertake to the Purchaser that it will pay the sum of approximately HK$13.3 million to the Purchaser by way of guaranteed net monthly rental for a period of 5 years commencing from the date following completion of the disposal of the Property. The Property Sales and Purchase Agreement was completed on February 7, 2005.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2004 (Amount expressed in Hong Kong dollars unless otherwise stated)

4. 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.

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

	The Group	
In HK$ million	**2004**	2003
Repayment of loan to ultimate holding company	**920**	—
Shares issued to immediate holding company	**257**	—
Purchase of fixed assets from a fellow subsidiary	**159**	—
Finance charges paid or payable to a fellow subsidiary and the ultimate holding company	**76**	97
System integration charges paid or payable to a fellow subsidiary	**70**	34
Amounts received or receivable in respect of services rendered	**66**	71
Amounts received or receivable from the rental of investment properties to fellow subsidiaries	**63**	60
Corporate expenses recharged by a fellow subsidiary	**23**	42
Accommodation expenses recharged by a fellow subsidiary	**8**	12

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 approved 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 estimations.

5. TURNOVER

	The Group	
In HK$ million	2004	2003
Property development	5,415	4,111
Property investment	358	346
Other businesses	58	71
	5,831	4,528

6. SEGMENT INFORMATION

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

a. Business segments

The Group comprises the following main business segments:

— Property development is mainly the Cyberport project in Hong Kong.
— Property investment is the investment portfolio of premium-grade buildings in Hong Kong and Beijing.
— Other businesses include the property management division providing services of property management, facilities management, corporate services and asset management.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2004 (Amount expressed in Hong Kong dollars unless otherwise stated)

6. SEGMENT INFORMATION - CONTINUED

a. Business segments - Continued

	Property development		Property investment		Other businesses		Eliminations		Consolidated	
In HK$ million	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
REVENUE										
External revenue	5,415	4,111	358	346	58	71	—	—	5,831	4,528
Inter-segment revenue	—	—	—	—	66	41	(66)	(41)	—	—
Total revenue	5,415	4,111	358	346	124	112	(66)	(41)	5,831	4,528
RESULT										
Segment results	551	(32)	230	260	(32)	(13)	—	—	749	215
Unallocated corporate expenses									(54)	(22)
Profit from operations									695	193
Finance costs, net									(78)	(160)
Profit before taxation									617	33
Taxation									(130)	(30)
Profit for the year attributable to shareholders									487	3

6. SEGMENT INFORMATION - CONTINUED

a. Business segments - Continued

	Property development		Property investment		Other businesses		Eliminations		Consolidated	
In HK$ million	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
OTHER INFORMATION										
Capital expenditure (including fixed assets) incurred during the year	—	—	173	15	3	—	—	—	176	15
Depreciation and amortisation	—	—	29	22	5	1	—	—	34	23
Surplus on revaluation of investment properties credited to income statement	—	—	—	41	—	—	—	—	—	41
Impairment losses recognised in income statement	—	—	—	—	4	—	—	—	4	—
Significant non-cash expenses (excluding depreciation, amortisation and impairment losses)	—	—	—	2	—	—	—	—	—	2
ASSETS										
Segment assets	11,991	9,241	6,286	6,391	82	91	—	—	18,359	15,723
Investment in unconsolidated subsidiaries									51	—
Unallocated corporate assets									923	16
Consolidated total assets									19,333	15,739
LIABILITIES										
Segment liabilities	11,907	9,472	802	6,227	41	12	—	—	12,750	15,711
Unallocated corporate liabilities									3,692	400
Consolidated total liabilities									16,442	16,111

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2004 (Amount expressed in Hong Kong dollars unless otherwise stated)

6. SEGMENT INFORMATION - CONTINUED

b. Geographical segments

The Group's businesses are managed and operated in two principal economic environments, Hong Kong and mainland China. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of operations. Segment assets and capital expenditure are based on the geographical location of the assets.

	Revenue from external customers		Segment assets		Capital expenditure incurred during the year	
In HK$ million	2004	2003	2004	2003	2004	2003
Hong Kong	5,630	4,343	15,665	11,715	163	1
Mainland China	201	185	3,668	4,024	13	14
	5,831	4,528	19,333	15,739	176	15

7. OPERATING PROFIT BEFORE PROVISION FOR IMPAIRMENT LOSSES AND SURPLUS ON REVALUATION OF INVESTMENT PROPERTIES

	The Group	
In HK$ million	2004	2003
Turnover	5,831	4,528
Cost of sales	(4,819)	(4,085)
Other income	2	7
General and administrative expenses	(315)	(298)
Operating profit before provision for impairment losses and surplus on revaluation of investment properties	699	152

8. PROFIT BEFORE TAXATION

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

	The Group	
In HK$ million	**2004**	2003
Crediting:		
Gross rental income	**358**	346
Less: outgoings	**(54)**	(38)
Surplus on revaluation of investment properties	**—**	41
Charging:		
Cost of properties sold	**4,665**	3,951
Depreciation, included in:		
- cost of sales	**19**	18
- general and administrative expenses	**12**	5
Staff costs, included in:		
- cost of sales	**52**	44
- general and administrative expenses	**89**	42
Retirement costs for other staff		
- Contributions to defined contribution retirement scheme, included in:		
- cost of sales	**3**	3
- general and administrative expenses	**5**	2
Auditors' remuneration		
- current year	**2**	1
Operating lease rental		
- land and buildings	**3**	2
- equipment	**1**	—
Provision for doubtful debts	**—**	2
Amortisation of goodwill	**3**	—

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December 31, 2004 (Amount expressed in Hong Kong dollars unless otherwise stated)

9. FINANCE COSTS, NET

	The Group	
In HK$ million	**2004**	2003
Interest paid/payable for:		
Bank loan wholly repayable within 5 years	**10**	73
Other loans wholly repayable within 5 years	**29**	97
Other loans not wholly repayable within 5 years	**47**	—
Finance costs	**86**	170
Interest income on bank deposits	**(8)**	(10)
Finance costs, net	**78**	160

Finance costs of HK$170 million for the year ended December 31, 2003 include arrangement fees of approximately HK$10 million incurred in respect of the bank loans of the Group. The Group did not incur any arrangement fees in 2004.

10. DIRECTORS' EMOLUMENTS

a. Details of directors' emoluments are set out below:

	The Group	
In HK$ million	2004	2003
Non-executive directors		
Fees	1	—
Executive directors		
Fees	—	—
Salaries, allowances and other allowances and benefits in kind	25	16
Pension scheme contributions	2	2
Bonuses paid and payable	38	13
	65	31
Total	66	31

Certain executive directors are remunerated as executives of the ultimate holding company and the above disclosed amounts consist of remuneration borne by the Group of HK$19 million and the ultimate holding company, but not recharged, of HK$46 million.

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December 31, 2004 (Amount expressed in Hong Kong dollars unless otherwise stated)

10. DIRECTORS' EMOLUMENTS - CONTINUED

b. The emoluments of the directors analysed by the number of directors and emolument ranges are as follows:

	Number of directors	
	The Group	
	2004	2003
Up to HK$1,000,000	5	1
HK$1,000,001 – HK$1,500,000	—	1
HK$2,000,001 – HK$2,500,000	—	2
HK$4,000,001 – HK$4,500,000	1	—
HK$4,500,001 – HK$5,000,000	1	—
HK$5,500,001 – HK$6,000,000	—	1
HK$7,000,001 – HK$7,500,000	—	1
HK$10,500,001 – HK$11,000,000	—	1
HK$18,500,001 – HK$19,000,000	3	—
	10	7

No directors waived the right to receive emoluments during the year.

11. SENIOR EXECUTIVES' EMOLUMENTS

Of the five highest paid individuals in the Group, four (2003: three) are directors whose emoluments are set out in note 10 above. The emoluments of the remaining individual (2003: two) are within the emolument ranges as set out below:

	Number of individuals The Group	
	2004	2003
HK$3,500,001 – HK$4,000,000	—	1
HK$5,000,001 – HK$5,500,000	1	—
HK$10,000,001 – HK$10,500,000	—	1
	1	2

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

NOTES TO THE FINANCIAL STATEMENTS

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12. TAXATION

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 year.

Mainland China taxation has been calculated on the estimated assessable profits for the year at the rates prevailing in the respective jurisdiction.

	The Group	
In HK$ million	2004	2003
Hong Kong profits tax		
– Provision for current year	79	—
Deferred taxation relating to the origination and reversal of temporary differences (note 27)	51	30
Total	130	30

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

	The Group	
In HK$ million	2004	2003
Profit before taxation	617	33
Calculated at Hong Kong Profits Tax rate	108	6
Income not subject to taxation	(3)	(7)
Expenses not deductible for taxation purposes	2	4
Tax losses not recognised	5	20
Increase in deferred tax asset resulting from increase in tax rate	—	(1)
Effect of different tax rate of subsidiaries operating in mainland China	18	8
Taxation charge	130	30

13. DIVIDEND

In HK$ million	2004	2003
Final dividend proposed after the balance sheet date of 7 Hong Kong cents per ordinary share (2003: nil)	168	—

The final dividend proposed after the balance sheet date has not been recognised as a liability as at the balance sheet date and it has already taken into account 520,000,000 shares to be issued pursuant to the terms of the Tranche A Note which was allotted and issued by the Company to Asian Motion (as directed by PCCW) on March 1, 2005.

14. EARNINGS PER SHARE

Under the reverse acquisition method of accounting (note 2(d)), the 1,648,333,333 ordinary shares issued by the Company to Asian Motion to effect the Transaction described in note 1(a) 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 per share based on the share capital of the Company are as follows:

	2004	2003
Earnings (HK$ million)		
Earnings for the purpose of calculating the basic earnings per share	487	3
Interest and provision for redemption premium on convertible notes	47	—
Earnings for the purpose of calculating the diluted earnings per share	534	3
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating the basic earnings per share	1,739,977,769	1,648,333,333
Effect of dilutive potential ordinary shares	769,083,182	—
Weighted average number of ordinary shares for the purpose of calculating the diluted earnings per share	2,509,060,951	1,648,333,333

The diluted earnings per share for the year ended December 31, 2003 is the same as the basic earnings per share as all potential additional ordinary shares are anti-dilutive.

The weighted average number of ordinary shares for the purpose of calculating the basic earnings per share for the year ended December 31, 2003 has been retrospectively adjusted for the 10:1 share consolidation which took place on May 10, 2004 as further discussed in note 23(b)(ii).

NOTES TO THE FINANCIAL STATEMENTS

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15. FIXED ASSETS

	The Group			
In HK$ million	Investment properties	Land and buildings	Other plant and equipment	Total
Cost or valuation				
Beginning of year	5,733	589	116	6,438
Additions	—	158	18	176
Transfers	(172)	169	3	—
Disposals	—	—	(1)	(1)
Exchange differences	(13)	—	—	(13)
Deficit on revaluation	(338)	—	—	(338)
End of year	5,210	916	136	6,262
Representing:				
At cost	—	916	136	1,052
At valuation	5,210	—	—	5,210
	5,210	916	136	6,262
Accumulated depreciation				
Beginning of year	—	98	46	144
Charge for the year	—	20	11	31
Disposals	—	—	(1)	(1)
End of year	—	118	56	174
Net book value				
End of year	5,210	798	80	6,088
Beginning of year	5,733	491	70	6,294

15. FIXED ASSETS - CONTINUED

The carrying amount of investment properties and land and buildings of the Group is analysed as follows:

	Investment properties		Land and buildings	
In HK$ million	**2004**	2003	**2004**	2003
Held in Hong Kong				
On long lease (over 50 years)	**1,765**	1,845	**734**	438
On medium-term lease (10–50 years)	**—**	—	**17**	16
Held outside Hong Kong				
On medium-term lease (10–50 years)	**3,445**	3,888	**47**	37
	5,210	5,733	**798**	491

Investment properties held in and outside Hong Kong were revalued as at December 31, 2004 by an independent valuer, CB Richard Ellis Limited. The basis of valuation for investment properties was open market value.

The mortgage of the investment properties and certain land and buildings as collateral for banking facilities of the Group has been released during the year as a result of full repayment of the relevant bank loan in March 2004 (see note 21(a)).

NOTES TO THE FINANCIAL STATEMENTS

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16. PROPERTIES UNDER DEVELOPMENT

	The Group	
In HK$ million	2004	2003
Properties under development (note a)	6,551	4,055
Less: Properties under development classified as current assets	(469)	(286)
	6,082	3,769

a. Pursuant to an agreement dated May 17, 2000 entered into with The Government of the Hong Kong Special Administrative Region ("HKSAR") ("Cyberport Project Agreement"), the Group was granted an exclusive right and obligation to design, develop, construct and market the Cyberport project at Telegraph Bay on the Hong Kong Island. The Cyberport project consists of commercial and residential portions. The completed commercial portion was transferred to The Government of the HKSAR at no consideration. The associated costs incurred have formed part of the development costs of the residential portion. Pre-sales of residential portion of the Cyberport project commenced in February 2003.

17. GOODWILL

In HK$ million	The Group 2004	2003
Cost		
Beginning of year	—	—
Additions	84	—
End of year	84	—
Accumulated amortisation		
Beginning of year	—	—
Charge for the year	(3)	—
End of year	(3)	—
Net Book Value		
End of year	81	—
Beginning of year	—	—

NOTES TO THE FINANCIAL STATEMENTS

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18. INVESTMENT IN SUBSIDIARIES

	The Company	
In HK$ million	At December 31, 2004	At March 31, 2004 (note 33)
Unlisted shares, at cost	2,870	—
Amounts due from subsidiaries	4,033	—
	6,903	—

An indirect wholly-owned subsidiary had borrowings from the Company bearing interest at commercial rates throughout the terms of the borrowings. The interest bearing principal receivable from the subsidiary as at December 31, 2004 is HK$2,359 million (As at March 31, 2004: nil) and is repayable on demand. Other balances with subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

Dividends from the mainland China joint ventures accounted for as subsidiaries will be declared based on the profits in the statutory financial statements of these mainland China joint ventures. Such profits are different from the amounts reported under HK GAAP.

As at December 31, 2004, the Group has financed the operations of certain of its joint ventures in mainland China in the form of shareholder's loans amounting to approximately US$198 million (2003: US$198 million) which have not been registered with the State Administration of Foreign Exchange. As a result, remittances in foreign currency of these amounts outside the mainland China may be restricted.

18. INVESTMENT IN SUBSIDIARIES - CONTINUED

As at December 31, 2004, particulars of the subsidiaries of the Company are as follows:

Company name	Place of incorporation/ operations	Principal activities	Nominal value of issued capital/ registered capital	Equity interest attributable to the Group	
				Directly	Indirectly
ACCA Investment Limited	Hong Kong	Property holding	HK$2	—	100%
Carmay Investment Limited	Hong Kong	Property holding	HK$2	—	100%
Cyber-Port Management Limited	Hong Kong	Provision of management services	HK$2	—	100%
Extra Lite International Limited	British Virgin Islands	Investment holding	US$1	—	100%
Excel Bright Properties Limited	British Virgin Islands	Investment holding	US$2	—	100%
Ipswich Holdings Limited	British Virgin Islands	Investment holding	US$2	100%	—
Island South Property Management Limited 南盈物業管理有限公司 (formerly known as Island South Property Management Limited)	Hong Kong	Property management	HK$2	—	100%
Madeline Investments Limited	Hong Kong	Trademark registrant	HK$2	—	100%
Midgre Properties Limited	British Virgin Islands	Investment holding	US$2	—	100%
PCPD Services Limited (formerly known as PCCW Properties (HK) Limited)	Hong Kong	Provision of management services	HK$2	—	100%

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December 31, 2004 (Amount expressed in Hong Kong dollars unless otherwise stated)

18. INVESTMENT IN SUBSIDIARIES - CONTINUED

Company name	Place of incorporation/ operations	Principal activities	Nominal value of issued capital/ registered capital	Equity interest attributable to the Group	
				Directly	Indirectly
PCPD Property Management Limited (formerly known as PCCW Property Management Limited)	British Virgin Islands	Provision of management services	US$2	—	100%
PCPD Real Estate Agency Limited (formerly known as PCCW Real Estate Agency Limited)	Hong Kong	Property sales agency	HK$2	—	100%
Pride Pacific Limited	Hong Kong	Financing	HK$2	—	100%
Smart Phoenix Limited	British Virgin Islands	Property development	US$1	—	100%
Talent Master Investments Limited	British Virgin Islands	Investment holding	US$1	—	100%
Atkins Developments Limited	British Virgin Islands	Investment holding	US$1	—	100%
Beijing Jing Wei House and Land Estate Development Co., Ltd.	The People's Republic of China	Property development	US$100,000,000	—	100%
Beijing Jingwei Property Management Co., Ltd.	The People's Republic of China	Property management	US$150,000	—	100%

18. INVESTMENT IN SUBSIDIARIES – CONTINUED

Company name	Place of incorporation/ operations	Principal activities	Nominal value of issued capital/ registered capital	Equity interest attributable to the Group Directly	Equity interest attributable to the Group Indirectly
Carlyle International Limited	Hong Kong	Entrustment work	HK$2	—	100%
Cyber-Port Limited	Hong Kong	Property development	HK$2	—	100%
Gain Score Limited	British Virgin Islands	Investment holding	US$1	—	100%
Monance Limited	Hong Kong	Inactive	HK$1,000	—	98%
Partner Link Investments Limited	British Virgin Islands/ Hong Kong	Property investment	US$1	—	100%
PCPD Facilities Management Limited (formerly known as PCCW Facilities Management Limited)	Hong Kong	Property management	HK$2	—	100%
Wise Union Enterprises Limited	British Virgin Islands	Investment holding	US$1	—	100%
PCPD Operations Limited (formerly known as Fine Future Holdings Limited)	British Virgin Islands	Corporate services	US$1	—	100%
PCPD Corporate Services Limited (formerly known as 盈科優展有限公司)	Hong Kong	Corporate services	HK$1	—	100%
Pacific Century Paramount Real Estate Company Limited 盈科置尊物業有限公司 (formerly known as 盈科置尊物業有限公司)	Hong Kong	Estate agency	HK$1	—	100%

NOTES TO THE FINANCIAL STATEMENTS

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19. INVESTMENT IN UNCONSOLIDATED SUBSIDIARIES

	The Group		The Company	
In HK$ million	At December 31, 2004	At December 31, 2003	At December 31, 2004	At March 31, 2004 (note 33)
Unlisted shares, at cost	80	—	287	287
Less: Provision for impairment in value	(4)	—	(287)	(287)
	76	—	—	—
Less: Reclassification to goodwill due to fair value adjustment of the asset acquired	(25)	—	—	—
Amounts due from unconsolidated subsidiaries	—	—	212	212
	51	—	212	212
Amounts due to unconsolidated subsidiaries	—	—	(8)	(7)
	51	—	204	205

In respect of the reverse acquisition of the DFG Group as set out in note 2(d), 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 a fair value of approximately HK$51 million as at December 31, 2004 (2003: nil).

20. CURRENT ASSETS AND LIABILITIES

a. Sales proceeds held in stakeholders' accounts

The balance represents proceeds from the sales of the residential portion of the Cyberport project retained in bank accounts opened and maintained by stakeholders which will be transferred to specific bank accounts, which are restricted in use as described in note (b) below, pursuant to certain conditions and procedures as stated in the Cyberport Project Agreement.

b. Restricted cash

Pursuant to the Cyberport Project Agreement, the Group has a restricted cash balance of approximately HK$903 million as at December 31, 2004 (2003: HK$2,701 million) held in specific bank accounts. The uses of the funds are specified in the Cyberport Project Agreement. The remaining HK$1 million (2003: nil) is used to secure a banking facility (see note 31).

c. Accounts receivable, net

An aging analysis of accounts receivable is set out below:

	The Group	
In HK$ million	2004	2003
Current	88	19
One to three months	3	2
More than three months	1	1
	92	22

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

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December 31, 2004 (Amount expressed in Hong Kong dollars unless otherwise stated)

20. CURRENT ASSETS AND LIABILITIES - CONTINUED

d. Accounts payable

An aging analysis of accounts payable is set out below:

	The Group	
In HK$ million	2004	2003
Current	136	93
One to three months	—	48
More than three months	—	43
	136	184

e. Gross amounts due to customers for contract work

	The Group	
In HK$ million	2004	2003
Contract costs incurred plus attributable profits less foreseeable losses	794	809
Less: Estimated value of work performed	(799)	(809)
	(5)	—

The total amount of progress billings, included in the estimated value of work performed as at December 31, 2004, is approximately HK$782 million (2003: HK$776 million).

No retention receivables from customers in respect of construction contracts in progress was included in non-current assets as at December 31, 2004 (2003: HK$8 million).

21. LONG - TERM LIABILITIES

	The Group		The Company	
In HK$ million	**At December 31, 2004**	At December 31, 2003	At December 31, 2004	At March 31, 2004 (note 33)
Long-term borrowings (note a)	—	1,151	—	—
Convertible notes (note b)	**3,621**	—	**3,621**	—
	3,621	1,151	**3,621**	—

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2004 (Amount expressed in Hong Kong dollars unless otherwise stated)

21. LONG - TERM LIABILITIES - CONTINUED

a. Long-term borrowings

	The Group		The Company	
In HK$ million	At December 31, 2004	At December 31, 2003	At December 31, 2004	At March 31, 2004 (note 33)
Bank loan repayable within a period				
– not exceeding one year	—	94	—	—
– over one year, but not exceeding two years	—	113	—	—
– over two years, but not exceeding five years	—	944	—	—
	—	1,151	—	—
Less: Amounts repayable within one year included under current liabilities	—	(94)	—	—
	—	1,057	—	—
Secured	—	1,151	—	—
Unsecured	—	—	—	—

21. LONG - TERM LIABILITIES - CONTINUED

b. Convertible notes

In HK$ million	The Group At December 31, 2004	The Group At December 31, 2003	The Company At December 31, 2004	The Company At March 31, 2004 (note 33)
Repayable within a period				
- over five years	3,590	—	3,590	—
Provision for redemption premium	31	—	31	—
	3,621	—	3,621	—
Representing:				
HK$1,170 million interest free				
Tranche A Note due 2011	1,170	—	1,170	—
HK$2,420 million one percent				
interest per annum				
Tranche B Note due 2014	2,420	—	2,420	—
Provision for redemption premium	31	—	31	—
	3,621	—	3,621	—
Secured	—	—	—	—
Unsecured	3,621	—	3,621	—

NOTES TO THE FINANCIAL STATEMENTS

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21. LONG - TERM LIABILITIES - CONTINUED

b. Convertible notes - Continued

(i) Tranche A Note due 2011

Tranche A Note in the amount of HK$1,170 million was issued at face value as part of the Transaction described in note 1(b) 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 conversion price of HK$2.25 per share, subject to adjustment. The Tranche A Note is interest free and may be redeemed at 100 percent of the outstanding principal amount.

On February 24, 2005, PCCW elected to convert all of the Tranche A Note into new shares of HK$0.10 each at HK$2.25 per share pursuant to the terms of the Tranche A Note. 520,000,000 ordinary shares of the Company was issued as a result of the conversion.

(ii) Tranche B Note due 2014

Tranche B Note in the amount of HK$2,420 million was issued at face value as part of the Transaction described in note 1(b) 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 conversion price of HK$3.60 per share, subject to adjustment. The Tranche B Note carries one percent interest rate per annum and may be redeemed at 120 percent of the outstanding principal amount if conversion does not occur.

22. PROVISIONS

	The Group		
	2004		
In HK$ million	Payment to the Government (note a)	Others	Total
Beginning of year	3,680	20	3,700
Additional provisions included within properties under development	4,375	—	4,375
Additional provisions made	—	11	11
Provisions settled	(1,675)	—	(1,675)
End of year	6,380	31	6,411
Less: Amount classified as current liabilities	(1,496)	(31)	(1,527)
	4,884	—	4,884

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22. PROVISIONS - CONTINUED

	The Group		
	2003		
In HK$ million	Payment to the Government (note a)	Others	Total
Beginning of year	—	—	—
Additional provisions included within properties under development	3,680	—	3,680
Additional provisions made	—	20	20
End of year	3,680	20	3,700
Less: Amount classified as current liabilities	(1,739)	(20)	(1,759)
	1,941	—	1,941

a. Pursuant to the Cyberport Project Agreement (note 16(a)), The Government of the HKSAR (the "Government") shall be entitled to receive payments of approximately 65 percent from the surplus cashflow arising from the sales of the residential portion of the Cyberport project, net of certain allowable costs incurred on the project, as stipulated under certain terms and conditions of the Cyberport Project Agreement. 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.

23. ISSUED EQUITY

	The Group	
	Number of shares (note a)	**Issued equity** (note a) HK$ million
	1,882,459,873	3,424

a. Due to the use of reverse acquisition basis of accounting (note 2(d)), the amount of issued equity, which includes share capital and share premium in the consolidated balance sheet, represents the amount of issued equity of the legal subsidiary, Ipswich Holdings Limited. The equity structure (i.e. the number and type of shares) reflects the equity structure of the legal parent, Pacific Century Premium Developments Limited.

NOTES TO THE FINANCIAL STATEMENTS

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23. ISSUED EQUITY - CONTINUED

b. The following is the movement in the share capital of the Company:

	The Company	
	Number of shares	Nominal value HK$ million
Authorised:		
Ordinary shares of HK$0.40 each at April 1, 2004 (note (i))	1,500,000,000	600
Cancellation of un-issued share capital (note (ii)(a))	(338,734,594)	(135)
Capital reduction and share consolidation (note (ii)(a) and (b))	(1,045,138,866)	(453)
	116,126,540	12
Creation of additional authorised shares (note (ii)(e))	9,883,873,460	988
Ordinary shares of HK$0.10 each at December 31, 2004	10,000,000,000	1,000
Issued and fully paid:		
Ordinary shares of HK$0.40 each at April 1, 2004 (note (i))	1,161,265,406	464
Capital reduction and share consolidation (note (ii)(a) and (b))	(1,045,138,866)	(453)
	116,126,540	11
Issue of new shares on acquisition of the Property Group from PCCW	1,648,333,333	165
Issue of new shares of HK$0.10 each (note (iii))	118,000,000	12
Ordinary shares of HK$0.10 each at December 31, 2004	1,882,459,873	188

(i) In the current year, the Company has changed its financial year end date from March 31 to December 31. As the last audited financial statements of the Company were prepared up to March 31, 2004, the movement of share capital of the Company is prepared to cover the nine-month period from April 1, 2004 to December 31, 2004. Comparative information was prepared for the year from April 1, 2003 to March 31, 2004.

23. ISSUED EQUITY - CONTINUED

(ii) By a special resolution passed at an extraordinary general meeting of the Company held on April 28, 2004, the Company carried out the following capital reorganisation :

(a) every issued share of HK$0.40 par value was reduced in value by cancelling HK$0.39 per share and the cancellation of each unissued share ("Capital Reduction") resulting in cancellation of 338,734,594 unissued shares;

(b) every ten shares of HK$0.01 each of the Company were consolidated into one share of HK$0.10 each ("Share Consolidation") resulting in reduction of 1,045,138,866 issued shares, representing reduction in share capital of HK$453 million (note 26);

(c) 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") (note 26);

(d) 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 (note 26); and

(e) 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

(iii) On November 10, 2004, the Company issued 118,000,000 new shares at HK$2.18 each to Asian Motion and received net proceeds of HK$248 million for general working capital purpose.

24. EMPLOYEE RETIREMENT BENEFITS

a. Defined benefit retirement schemes

A number of employees of the Group are entitled to join the defined benefit retirement schemes ("DB Schemes"), operated by PCCW, which provide lump sum benefits to employees upon resignation and retirement. The DB Schemes are final salary defined benefit schemes. The scheme assets are administered by independent trustees and are maintained independently of the PCCW Group's finances.

The defined benefit pension expense recognised in the income statement for the year ended December 31, 2004 was HK$0.4 million (2003: HK$33,000). As at December 31, 2004, the defined benefit liability of the Group was approximately HK$5 million (2003: HK$4 million).

24. EMPLOYEE RETIREMENT BENEFITS - CONTINUED

a. Defined benefit retirement schemes - Continued

The DB Schemes are funded by contributions from the Group and employees in accordance with qualified independent actuaries' recommendations from time to time on the basis of periodic valuations.

On July 1, 2003 (the "Transfer Date"), all former members of the DB Schemes were transferred to defined contribution schemes operated by PCCW for future services to be rendered by them to the Group and the benefits in respect of services rendered before the Transfer Date remained unchanged. In other words, scheme service in determining the level of benefit was frozen as at June 30, 2003 whereas the scheme salary and multiple will continue to grow. This freezing of scheme services was considered as a curtailment event under Statement of Standard Accounting Practice ("SSAP") 34 (revised) "Employee benefits" but did not result in any accounting impact on the Group's financial statements.

The latest independent actuarial valuation of the DB Schemes, in accordance with SSAP 34, was carried out on December 31, 2004 and was prepared by Mr Aaron Wong of Watson Wyatt Hong Kong Limited, fellow of the Canadian Institute of Actuaries and the Society of Actuaries, USA, using the projected unit credit method. The actuary was of the opinion that the fair value of the scheme assets was sufficient to cover 92.6 percent (2003: 90.6 percent) of the present value of the defined benefit obligations as at December 31, 2004.

b. Defined contribution retirement scheme

Employees of the Group are also entitled to join the defined contribution schemes operated by PCCW, including the Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement scheme. The schemes are administered by independent trustees.

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

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

25. EQUITY COMPENSATION BENEFITS

a. Share option scheme

A new share option scheme (the "2003 Scheme") was approved and adopted on March 17, 2003. The 2003 Scheme is valid and effective for a period of 10 years after the date of adoption.

The purpose of the 2003 Scheme is to enable the Company to grant options to any directors (including executive directors, non-executive directors and independent non-executive directors) of the Company and its subsidiaries and full-time or part-time employees (including executives or officers) of the Group and any advisors and consultants providing advisory, consultancy or other services to the Group, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of the Group and those staff under secondment to the Group who the Board considers, in its sole discretion, have contributed or will contribute to the Group ("Participant"), as incentives or rewards for their contribution to the Group and to encourage Participant to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

The maximum number of shares of the Company in respect of which options may be granted under the 2003 Scheme and other share option schemes of the Company is not permitted to exceed 30 percent in nominal amount of the issued share capital of the Company from time to time. The maximum number of shares in respect of which options may be granted to a specifically identified single grantee under the 2003 Scheme shall not (when aggregated with any shares subject to any other share option scheme(s) of the Company) in any 12 month period exceed 1 percent of the shares in issue.

Where any grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled or outstanding) to such person in the 12 month period up to and including the date of grant:

(i) representing in aggregate over 0.1 percent of the shares in issue; and

(ii) having an aggregate value, based on the closing price of the shares as stated in the daily quotations sheets issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant, in excess of HK$5 million,

such grant of options shall be subject to prior approval by resolution of the shareholders who are not connected persons of the Company pursuant to the Rules Governing the Listing of Securities on the Stock Exchange.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2004 (Amount expressed in Hong Kong dollars unless otherwise stated)

25. EQUITY COMPENSATION BENEFITS - CONTINUED

a. Share option scheme - Continued

Consideration to be paid on each grant of option is HK$1 and an offer remains open for acceptance by Participant concerned for a period of 28 days from date of grant or otherwise stated in the offer letter. The option period is a period to be notified by the Board to each grantee at the time of making an offer which shall not expire later than ten years from the date of grant. The exercise price is determined by the directors of the Company, and shall not be less than the greatest of (i) the closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares of Company for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share of Company.

b. Details of share options granted by the Company pursuant to the 2003 Scheme and the share options outstanding at December 31, 2004, are as follows:

(i) Movements in share options

	Number of options	
	2004	2003
Beginning of year	—	—
Issued (note (ii))	10,000,000	—
End of year (note (ii))	10,000,000	—
Options vested as at end of year	10,000,000	—

25. EQUITY COMPENSATION BENEFITS - CONTINUED

b. Details of share options granted by the Company pursuant to the 2003 Scheme and the share options outstanding at December 31, 2004, are as follows: - Continued

(ii) Details of share options granted during the year

Date of grant	Exercise period	Exercise price HK$	2004 Consideration received HK$	2004 Number of options	2003 Consideration received HK$	2003 Number of options
December 20, 2004	December 20, 2004 to December 19, 2014	2.375	2	10,000,000	—	—
			2	10,000,000	—	—

All of the share options granted during the year remained unexpired and unexercised as at December 31, 2004.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2004 (Amount expressed in Hong Kong dollars unless otherwise stated)

26. RESERVES/(DEFICIT)

	The Group					
	2004					
In HK$ million	Issued equity	Capital reserve	Property revaluation reserve	Currency translation reserve	Deficit	Total
Beginning of year	—	—	263	—	(635)	(372)
Issue of ordinary shares, net of issuing expenses	3,215	—	—	—	—	3,215
Acquisition of subsidiaries	209	—	—	—	—	209
Decrease in capital reserve (note a)	—	(565)	—	—	—	(565)
Deficit on revaluation of investment properties, net of tax	—	—	(83)	—	—	(83)
Profit for the year	—	—	—	—	487	487
End of year	3,424	(565)	180	—	(148)	2,891

26. RESERVES/(DEFICIT) - CONTINUED

	The Company				
	Nine months ended December 31, 2004				
In HK$ million	Share premium	Capital redemption reserve	Contributed surplus	Accumulated losses	Total
As at April 1, 2004 (note 23(b)(i))	47	1	393	(648)	(207)
Capital Reduction and Share Consolidation (note 23(b)(ii)(a) and (b))	—	—	453	—	453
Share Premium Cancellation (note 23(b)(ii)(c))	(47)	—	47	—	—
Offset contributed surplus with accumulated losses (note 23(b)(ii)(d))	—	—	(500)	500	—
Issue of ordinary shares, net of issuing expenses	3,038	—	—	—	3,038
Profit for the period	—	—	—	6	6
As at December 31, 2004	3,038	1	393	(142)	3,290

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2004 (Amount expressed in Hong Kong dollars unless otherwise stated)

26. RESERVES/(DEFICIT) - CONTINUED

The Group

In HK$ million	Issued equity	Capital reserve	Property revaluation reserve	Currency translation reserve	Deficit	Total
	2003					
Beginning of year	—	—	—	3	(638)	(635)
Surplus on revaluation of investment properties, net of tax	—	—	263	—	—	263
Translation exchange difference	—	—	—	(3)	—	(3)
Profit for the year	—	—	—	—	3	3
End of year	—	—	263	—	(635)	(372)

The Company

In HK$ million	Share premium	Capital redemption reserve	Contributed surplus	Accumulated losses	Total
	Year ended March 31, 2004				
As at April 1, 2003 (note 23(b)(i))	**47**	**1**	**393**	**(559)**	**(118)**
Loss for the year	—	—	—	(89)	(89)
As at March 31, 2004 (note 23(b)(i))	47	1	393	(648)	(207)

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.

27. DEFERRED TAXATION

a. Movement in deferred tax liabilities during the year is as follows:

The Group

	2004			
In HK$ million	**Accelerated tax depreciation**	**Revaluation of properties**	**Others**	**Total**
Beginning of year	**153**	**344**	**9**	**506**
Charged to income statement during the year (note 12)	**33**	**—**	**—**	**33**
Credited to property revaluation reserve	**—**	**(191)**	**—**	**(191)**
End of year	**186**	**153**	**9**	**348**

The Group

	2003			
In HK$ million	Accelerated tax depreciation	Revaluation of properties	Others	Total
Beginning of year	111	342	9	462
Charged to income statement during the year (note 12)	42	—	—	42
Charged to property revaluation reserve	—	2	—	2
End of year	153	344	9	506

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2004 (Amount expressed in Hong Kong dollars unless otherwise stated)

27. DEFERRED TAXATION - CONTINUED

b. Deferred income tax assets are recognised for tax loss carry forward to the extent that realisation of the related tax benefit through utilisation against future taxable profits is probable. Movement in deferred tax assets during the year is as follows :

	The Group	
In HK$ million	2004	2003
Beginning of year	20	8
(Reversed)/Credited to income statement during the year (note 12)	(18)	12
End of year	2	20

c. The Group has unutilised estimated tax losses of HK$248 million (2003: HK$192 million) to carry forward for deduction against future taxable income. Estimated tax losses of HK$113 million (2003: HK$181 million) will expire within 4 years from December 31, 2004. The remaining portion of the tax losses, mainly relating to Hong Kong companies, can be carried forward indefinitely.

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

a. Reconciliation of profit before taxation to net cash inflow/(outflow) from operating activities

	The Group	
In HK$ million	**2004**	2003 (note 2(d) and 33)
Profit before taxation	**617**	33
Adjustment for:		
Interest income	**(8)**	(10)
Interest expense	**39**	160
Finance charges	**—**	10
Depreciation	**31**	23
Convertible note interest and provision for premium	**47**	—
Provision for impairment of investment in unconsolidated subsidiaries	**4**	—
Provision for doubtful debts	**—**	2
Amortisation of goodwill	**3**	—
Surplus on revaluation of investment properties	**—**	(41)
Operating Profit Before Changes In Working Capital	**733**	177
Decrease/(Increase) in operating assets:		
– properties under development	**(2,496)**	286
– accounts receivable	**(70)**	1
– prepayments, deposits and other current assets	**58**	(20)
– sales proceeds held in stakeholders' accounts	**(2,016)**	(2,402)
– restricted cash	**1,797**	(2,701)
– amounts due from fellow subsidiaries	**(12)**	—
– amounts due from related companies	**(7)**	—
– other non-current assets	**8**	—

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2004 (Amount expressed in Hong Kong dollars unless otherwise stated)

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT - CONTINUED

a. Reconciliation of profit before taxation to net cash inflow/(outflow) from operating activities - Continued

	The Group	
In HK$ million	2004	2003 (note 2(d) and 33)
Increase/(Decrease) in operating liabilities:		
– accounts payable, accruals, other payables, deferred income and provisions	3,020	4,265
– gross amounts due to customers for contract work	5	(10)
– amounts due to fellow subsidiaries	10	-
– amounts due to related companies	(5)	2
– other long-term liabilities	49	(56)
Cash Generated From / (Used In) Operations	1,074	(458)
Interest paid	(34)	(66)
Interest received	8	10
Tax paid		
– Hong Kong profits tax paid	(2)	(14)
– Overseas tax paid	—	(17)
Net Cash Inflow / (Outflow) From Operating Activities	1,046	(545)

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT - CONTINUED

b. Acquisition of subsidiaries

In HK$ million	The Group 2004	The Group 2003
Net assets acquired:		
Investment in unconsolidated subsidiaries	55	—
Other receivables (note (i))	70	—
	125	—
Goodwill arising on acquisition (note 17)	84	—
	209	—
Satisfied by:		
Issued equity (note 26)	209	—
Analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries:		
Cash paid	—	—
Cash acquired	—	—
Cash and bank balances acquired in respect of acquisition of subsidiaries	—	—

(i) During the period from May 10, 2004 to December 31, 2004, the Group has collected HK$50 million in respect of other receivables acquired in the Transaction.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2004 (Amount expressed in Hong Kong dollars unless otherwise stated)

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT - CONTINUED

c. Analysis of cash and cash equivalents

	The Group	
In HK$ million	2004	2003
Cash and bank balances	1,922	2,825
Restricted cash	(904)	(2,701)
Cash and cash equivalents as at December 31	1,018	124

d. Major non-cash transaction

The purchase of 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 was a non-cash transaction and details of such have been set out in note 1.

29. COMMITMENTS

a. Capital

	The Group	
In HK$ million	2004	2003
Authorised and contracted for	1,858	2,741
Authorised but not contracted for	2,237	3,084
	4,095	5,825

29. COMMITMENTS - CONTINUED

a. Capital - Continued

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

	The Group	
In HK$ million	2004	2003
Property development (note (i))	4,000	5,743
Acquisition of fixed assets	7	—
Investment properties	85	82
Others	3	—
	4,095	5,825

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2004 (Amount expressed in Hong Kong dollars unless otherwise stated)

29. COMMITMENTS - CONTINUED

b. Operating leases

(i) As at December 31, 2004, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

Land and buildings

	The Group	
In HK$ million	2004	2003
Within 1 year	4	4
After 1 year but within 5 years	—	3
	4	7

Equipment

	The Group	
In HK$ million	2004	2003
Within 1 year	5	1
After 1 year but within 5 years	6	2
	11	3

29. COMMITMENTS - CONTINUED

b. Operating leases - Continued

(ii) As at December 31, 2004, the total future minimum lease receipts under non-cancellable operating leases are receivable as follows:

Land and buildings

	The Group	
In HK$ million	**2004**	2003
Within 1 year	**193**	254
After 1 year but within 5 years	**338**	420
After 5 years	**96**	146
	627	820

Total future minimum lease receivable as at December 31, 2004 includes minimum lease receipts from the tenants of PCCW Tower up to February 7, 2005, i.e. the completion date of the disposal of PCCW Tower to a third party purchaser as discussed in note 3. Comparative figures have not been restated to reflect the disposal. Under the agreed form of the Property Sales and Purchase Agreement, on completion of the disposal of the Property, there is a rental guarantee pursuant to which Partner Link will undertake to the Purchaser that it will pay the sum of approximately HK$13.3 million to the Purchaser by way of guaranteed net monthly rental for a period of 5 years. In return, the lease receipts from the tenants for the same period of 5 years will be collected by Partner Link.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2004 (Amount expressed in Hong Kong dollars unless otherwise stated)

30. CONTINGENT LIABILITIES

The contingent liabilities of the Group and the Company not provided for in the financial statements are set out as follows:

	The Group		The Company	
In HK$ million	At December 31, 2004	At December 31, 2003	At December 31, 2004	At March 31, 2004 (note 33)
Performance guarantee	1	1	—	—
Corporate guarantee (note (i))	92	—	92	92
	93	1	92	92

(i) In April 1997, the Company and one of its wholly-owned subsidiaries had executed guarantees in favour of the lender of a convertible loan in the principal amount of US$12 million granted to one of its wholly-owned unconsolidated subsidiaries.

31. 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:

	The Group	
In HK$ million	2004	2003
Investment properties	—	3,888
Land and buildings	—	37
Bank deposit	1	—
	1	3,925

As at December 31, 2004, an indirect wholly-owned subsidiary of the Company had been granted a banking facility amounting to approximately HK$20 million from a bank for the purpose of providing guarantee to The Government of the HKSAR. Such facility was secured by a bank deposit placed by the subsidiary from time to time to secure the amount of guarantee issued by the bank. The bank deposit was included in “restricted cash” on the consolidated balance sheet as at December 31, 2004. Aggregate banking facilities as at December 31, 2004 were HK$20 million (2003: HK$1,147 million) of which the unused facilities amounted to HK$19 million (2003: nil).

32. POST BALANCE SHEET EVENTS

The following events occurred subsequent to December 31, 2004 up to the date of approval of these financial statements by the Board of Directors:

a. The Property Sales and Purchase Agreement dated December 21, 2004 for the disposal of PCCW Tower (as aforementioned in note 3) was completed on February 7, 2005. The entire cash consideration of HK$2,808 million was all received by Partner Link and the assignment of PCCW Tower was completed on February 7, 2005.

b. On February 24, 2005, PCCW elected to convert the Tranche A Note due 2011 with a principal amount of HK$1,170 million into new shares of HK$0.10 each at HK$2.25 per share pursuant to the terms of the Tranche A Note (the "Conversion"). 520,000,000 ordinary shares of the Company was issued as a result of the Conversion.

   Prior to the Conversion, PCCW held approximately 51.07 percent of the issued shares of the Company. Immediately after the Conversion, PCCW held approximately 61.66 percent of the enlarged issued share capital of the Company.

33. COMPARATIVE FIGURES

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

Due to the change of accounting year end as stated in note 1, the comparative figures presented for the Company are based on March 31, 2004 audited account of the Company. The financial statements of the Company as of and for the year ended March 31, 2004 were audited by another firm of certified public accountants who expressed an unqualified opinion on the financial statements in their report dated July 22, 2004.