NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2005

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the HKICPA. These unaudited condensed consolidated financial statements should be read in conjunction with the Group's consolidated financial statements as at and for the year ended December 31, 2004.

The preparation of the unaudited condensed consolidated financial statements in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The accounting policies and methods of computation used in the preparation of the interim financial statements are consistent with those used in the annual consolidated financial statements for the year ended December 31, 2004 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and interpretations ("new HKFRSs") which are effective for accounting periods commencing on or after January 1, 2005.

The comparative unaudited condensed consolidated financial statements as at December 31, 2004 and for the six-month period ended June 30, 2004 have been restated on adoption of the new HKFRSs in compliance with the transitional and relevant provisions of the new HKFRSs.

The new HKFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ended December 31, 2005 may be affected by the issue of additional interpretation(s) or other changes announced by the HKICPA subsequent to the date of this interim report. Therefore the policies that will be applied in the Group's consolidated financial statements for that period cannot be determined with certainty at the date of this interim report.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in note 2 below.

2. CHANGES IN ACCOUNTING POLICIES

In 2005, the Group adopted the new HKFRSs. As a result, the comparative figures of both of the unaudited condensed consolidated balance sheet as at December 31, 2004, the unaudited condensed consolidated income statement and the unaudited consolidated statement of changes in equity for the six months ended June 30, 2004 have been restated in accordance with the relevant requirements of the new HKFRSs.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2005

2. CHANGES IN ACCOUNTING POLICIES - CONTINUED

Effect of adopting new HKFRSs

In 2005, the Group adopted the following new/revised standards of HKFRS, which are relevant to its operations.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 34	Interim Financial Reporting
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS-Int 15	Operating Leases – Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK-Int 3	Revenue – Pre-completion Contracts for the Sale of Development Properties
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

2. CHANGES IN ACCOUNTING POLICIES - CONTINUED

Effect of adopting new HKFRSs - Continued

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 24, 27, 33, 34, 37, HKAS-Int 15, HKFRS 5 and HK-Int 4 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected certain disclosures in the financial statements.
- HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 27, 33, 34, 37, HKAS-Int 15, HKFRS 5 and HK-Int 4 had no material effect on the Group's policies.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards or in the absence of transitional provisions, have been retroactively applied in accordance with the requirements of HKAS 8.

Following the Group's adoption of the new HKFRSs, the accounting policies of the Group have been changed as follows:

(a) Revenue – Pre-completion contracts for the sale of development properties

HK-Int 3 (previously issued as SSAP-Int 24) requires revenue arising from pre-completion sale of development properties be recognised only when the revenue recognition criteria specified in HKAS 18 are met. This results in a change to the Group's revenues and profits recognition policy such that revenues and profits arising from pre-completion sale of development properties are recognised when the property is completed, as compared to the previous accounting policy of recognising revenues and profits on the percentage of construction completion basis.

The Group followed the transitional provisions of HK-Int 3 as follows:

(i) for revenues and profits arising from the pre-completion contracts for the sale of development properties for which legally binding unconditional sales contracts were entered into before January 1, 2005, the Group continues to recognise revenues and profits on the percentage of construction completion basis.

(ii) for revenues and profits arising from the pre-completion contracts for the sale of development properties for which legally binding unconditional sales contracts were entered into on or after January 1, 2005, revenues and profits are recognised when the property is completed.

The effect of the above changes on the interim 2005 results is a reduction in profit by HK$42 million. Basic and diluted earnings per share have been reduced by 1.89 Hong Kong cents and 1.37 Hong Kong cents respectively.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2005

2. CHANGES IN ACCOUNTING POLICIES - CONTINUED

(b) Investment properties

In prior years, changes arising on the revaluation of the Group's investment properties were recognised directly in the property revaluation reserve except when, on a portfolio basis, the reserve was insufficient to cover a deficit on the portfolio, in which case the excess was charged to the consolidated income statement. When a deficit previously recognised in the consolidated income statement had reversed, the reversal was recognised as a credit in the consolidated income statement. Revaluation reserve was included in the calculation of the gain or loss on disposal of an individual investment property.

Under HKAS 40, all changes in the fair value of investment properties are recognised directly in the consolidated income statement under the fair value model. In addition, property that is held for long-term rental or for capital appreciation or both, and that is not occupied by the companies in the consolidated group, is classified as investment property.

Accordingly, the premises leased to the subsidiaries of PCCW Limited ("PCCW"), the ultimate holding company of the Group that are fellow subsidiaries to the Company have been reclassified from property, plant and equipment to investment properties and are carried at fair value. As a result of the adoption of HKAS 40 retroactively as permitted by the transitional provisions of HKAS 40, the retained earnings as at January 1, 2005 have been increased by HK$567 million being the adjustment to restate the investment properties to the market value as at January 1, 2005 and the reversal of depreciation charges previously made. The effect of the change on the interim 2005 results is an increase in profit by HK$2 million. Basic and diluted earnings per share have been increased by 0.11 Hong Kong cents and 0.08 Hong Kong cents respectively.

Investment properties comprise land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment properties when the rest of the definition of investment properties is met. The operating lease is accounted for as if it were a finance lease.

Investment properties are measured initially at their cost, including related transaction costs. After initial recognition, investment properties are carried at fair value with changes in fair values recognised in the consolidated income statement.

2. CHANGES IN ACCOUNTING POLICIES - CONTINUED

(c) Reclassification of leasehold land

The adoption of HKAS 17 has resulted in a change in the accounting policy relating to the classification of leasehold land. Up-front payments have been reclassified from property, plant and equipment to prepayments for operating leases. The up-front prepayments made for the leasehold land are expensed in the consolidated income statement on a straight-line basis over the period of the lease or where there is impairment; the impairment is expensed in the consolidated income statement. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment. As a result of the adoption of HKAS 17, leasehold land with a carrying value of HK$155 million has been reclassified from property, plant and equipment to interest in leasehold land as at December 31, 2004. There is no material impact to the interim 2005 results due to the change in accounting policy.

(d) Goodwill

The adoption of HKFRS 3, HKAS 36 and HKAS 38 have resulted in a change in the accounting policy for goodwill. Until December 31, 2004, goodwill was amortised to the consolidated income statement on a straight-line basis over its estimated useful life of 20 years and was assessed for impairment whenever there was an indication of impairment.

In accordance with the provisions of HKFRS 3, the Group ceased amortisation of goodwill from January 1, 2005. The accumulated amortisation as at December 31, 2004 had been eliminated with a corresponding decrease in the cost of goodwill. From the year ended December 31, 2005 and onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment. The effect of this change on the interim 2005 results is an increase in profit by HK$2 million. Basic and diluted earnings per share have been increased by 0.08 Hong Kong cents and 0.06 Hong Kong cents respectively. Goodwill on the consolidated balance sheet is HK$2 million higher than it would have been if the prior year's accounting policy had been followed.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2005

2. CHANGES IN ACCOUNTING POLICIES - CONTINUED

(e) Financial assets and liabilities

The fair value of the liability portion of a convertible debt is determined using a market interest rate for an equivalent non-convertible debt. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the debt. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

The carrying amount of the financial liability is measured on the amortised cost basis using effective interest method minus principal repayments.

For those derivatives embedded in lease agreements whose economic characteristics and risks are not closely related to the host lease agreements are measured at fair value and are classified as financial asset or liability at fair value through profit or loss with changes in fair values recognised in the consolidated income statement.

The adoption of HKASs 32 and 39 resulted in an increase in opening reserves at January 1, 2005 of HK$1,105 million. The effect of the change on the interim 2005 results is a reduction in profit by HK$30 million. Basic and diluted earnings per share have been reduced by 1.35 Hong Kong cents and 0.98 Hong Kong cents respectively. The increase or decrease in consolidated balance sheet items as at June 30, 2005 due to the adoption of HKASs 32 and 39 is as follows:

HK$ million	June 30, 2005
Increase in derivative financial instrument	2
Increase in long-term borrowings	1,754
Increase in share premium	38
Decrease in retained earnings	(38)

2. CHANGES IN ACCOUNTING POLICIES - CONTINUED

(f) Income taxes - Recovery of revalued non-depreciable assets

The adoption of HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use unless there are clear plans to dispose of the property as at the balance sheet date. In prior years, the carrying amount of that asset was expected to be recovered through sale.

As a result of adoption of the transitional provisions of HKAS-Int 21, retained earnings brought forward from 2004 have been increased by HK$88 million being the restatement of deferred tax charges. There is no effect of the change on the interim 2005 results as no adjustment to the fair values of the investment properties was made during the six months ended June 30, 2005.

(g) Share-based payment

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payment. Until December 31, 2004, the provision of share options by PCCW or the Company to the employees and directors of the Company and its subsidiaries did not result in an expense in the consolidated income statement. Effective on January 1, 2005, the Group expenses the cost of share options in the consolidated income statement. As a transitional provision, the cost of share options granted after November 7, 2002 and not vested on January 1, 2005 was expensed retrospectively in the consolidated income statements of the respective periods.

As a result of adoption of the transitional provisions of HKFRS 2, retained earnings brought forward from 2004 have been reduced by HK$10 million being the recognition of the costs of share options of prior periods and other reserves at January 1, 2005 have been increased by HK$10 million. The effect of the change on the interim 2005 results is a reduction in profit by HK$3 million. Basic and diluted earnings per share have been reduced by 0.13 Hong Kong cents and 0.10 Hong Kong cents respectively.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2005

2. CHANGES IN ACCOUNTING POLICIES - CONTINUED

The major impact of the adoption of new HKFRSs to the interim 2005 results are summarised below:

	2005					
HK$ million	HKASs 32 & 39	HKAS 40	HKFRS 2	HKFRS 3	HK-Int 3	Total
For the six months ended June 30, 2005						
Increase/(decrease) in profit :						
Decrease in revenue for development properties	—	—	—	—	(373)	(373)
Decrease in cost of development properties sold	—	—	—	—	322	322
Decrease in depreciation	—	3	—	—	—	3
Increase in finance costs	(30)	—	—	—	—	(30)
Increase in staff costs	—	—	(4)	—	—	(4)
Decrease in amortisation of goodwill	—	—	—	2	—	2
(Increase)/decrease in income tax	—	(1)	1	—	9	9
Total (decrease)/increase in profit attributable to equity holders of the Company	(30)	2	(3)	2	(42)	(71)
(Decrease)/increase in earnings per share (in Hong Kong cents)						
- Basic	(1.35)	0.11	(0.13)	0.08	(1.89)	(3.18)
- Diluted	(0.98)	0.08	(0.10)	0.06	(1.37)	(2.31)

2. CHANGES IN ACCOUNTING POLICIES - CONTINUED

The major impact of the adoption of new HKFRSs to the comparative figures in the consolidated income statement for the six-month period ended June 30, 2004 are summarised in the below table. As the retrospective adjustments have not been made for all changes in accounting policies as explained above, the amount shown for the six-month period ended June 30, 2004 may not be comparable with the amounts shown for the current interim period.

	2004		
HK$ million	HKAS 40	HKFRS 2	Total
For the six months ended June 30, 2004			
Increase/(decrease) in profit:			
Increase in staff costs	—	(3)	(3)
Decrease in depreciation	9	—	9
Increase in income tax	(1)	—	(1)
Total increase/(decrease) in profit attributable to equity holders of the Company	8	(3)	5
Increase/(decrease) in earnings per share (in Hong Kong cents)			
- Basic	0.46	(0.16)	0.30
- Diluted	0.39	(0.14)	0.25

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2005

2. CHANGES IN ACCOUNTING POLICIES - CONTINUED

The major impact of the adoption of new HKFRSs to the consolidated balance sheet as at December 31, 2004 are summarised below:

HK$ million	HKAS 17	HKAS 40	2004 HKAS-Int 21	HKFRS 2	Total
At December 31, 2004					
Increase/(decrease) in assets:					
Decrease in property, plant and equipment	(155)	(688)	—	—	(843)
Increase in investment properties	—	1,106	—	—	1,106
Increase in interest in leasehold land	155	—	—	—	155
Decrease in prepayments, deposits and other current assets	—	(31)	—	—	(31)
Decrease in liabilities:					
Decrease in deferred tax liabilities	—	—	88	—	88
Decrease/(increase) in equity:					
Decrease in property revaluation reserve	—	180	—	—	180
Increase in contributed surplus	—	—	—	(10)	(10)
(Increase)/decrease in retained earnings	—	(567)	(88)	10	(645)
	—	—	—	—	—

3. MATERIAL TRANSACTIONS

On December 21, 2004, Partner Link Investments Limited ("Partner Link"), an indirect wholly-owned subsidiary of the Company, entered into a formal sales and purchase agreement (the "Property Sales and Purchase Agreement") with Richly Leader Limited (the "Purchaser") for the disposal of the property known as PCCW Tower (the "Property") for a consideration of HK$2,808 million in cash. The consideration was arrived at after arm's length negotiations. Under the Property Sales and Purchase Agreement, on completion of the disposal of the Property, Partner Link has guaranteed to the Purchaser a net monthly rental of approximately HK$13.3 million 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 and the Group has recorded a gain on disposal of HK$8 million.

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 to a wholly-owned subsidiary of PCCW as a result of the Conversion.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2005

4. TURNOVER AND SEGMENT INFORMATION

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

	Property development		Property investment		Other businesses		Eliminations		Consolidated	
HK$ million	2005	2004 (restated)	2005	2004 (restated)	2005	2004 (restated)	2005	2004 (restated)	2005	2004 (restated)
REVENUE										
External revenue	3,179	2,096	121	177	38	33	—	—	3,338	2,306
Inter-segment revenue	—	—	—	—	19	41	(19)	(41)	—	—
Total revenue	3,179	2,096	121	177	57	74	(19)	(41)	3,338	2,306
RESULT										
Segment results	236	209	85	130	4	(6)	—	—	325	333
Unallocated corporate expenses									(12)	(11)
Interest income									72	1
Finance costs									(66)	(50)
Impairment of investment in unconsolidated subsidiaries held for sale									(6)	—
Profit before taxation									313	273
Taxation									(50)	(57)
Profit attributable to equity holders of the Company									263	216
Capital expenditure	—	—	4	162	1	—	—	—	5	162

5. PROFIT BEFORE TAXATION

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

	Six months ended June 30,	
HK$ million	**2005**	2004 (restated) (notes 2 and 18)
Crediting:		
Gain on disposal of investment property	**8**	—
Gross rental income	**121**	177
Less: outgoings	**(15)**	(24)
Charging:		
Cost of development properties sold	**2,848**	1,798
Depreciation	**5**	4
Staff costs, included in:		
- cost of sales	**21**	23
- administrative expenses	**46**	33
Contributions to defined contribution retirement scheme, included in:		
- cost of sales	**1**	2
- administrative expenses	**3**	1
Impairment of investment in unconsolidated subsidiaries held for sale	**6**	—

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2005

6. TAXATION

	Six months ended June 30,	
HK$ million	2005	2004 (restated) (notes 2 and 18)
Current tax expenses		
- Hong Kong profits tax	52	22
- Overseas tax	1	—
Deferred tax		
- Origination and reversal of temporary differences	(3)	35
	50	57

Hong Kong profits tax has been provided at the rate of 17.5 percent (2004: 17.5 percent) on the estimated assessable profits for the period.

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

7. DIVIDEND

	Six months ended June 30,	
HK$ million	2005	2004
Interim dividend declared of 1.5 Hong Kong cents per share (2004: nil)	36	—

The interim dividend declared after the balance sheet date has not been recognised as a liability as at the balance sheet date.

A final dividend of 7 Hong Kong cents per share (2003: nil) for the year ended December 31, 2004 was paid by the Company on May 19, 2005.

8. EARNINGS PER SHARE

	Six months ended June 30,	
	2005	2004 (restated) (notes 2 and 18)
Earnings (HK$ million)		
Earnings for the purpose of calculating the basic earnings per share	**263**	216
Finance costs on convertible debt	**54**	9
Earnings for the purpose of calculating the diluted earnings per share	**317**	225
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating the basic earnings per share	**2,232,957,111**	1,681,512,344
Effect of dilutive potential ordinary shares	**841,896,134**	340,634,921
Weighted average number of ordinary shares for the purpose of calculating the diluted earnings per share	**3,074,853,245**	2,022,147,265

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2005

9. ACCOUNTS RECEIVABLE, NET

An aging analysis of accounts receivable is set out below:

HK$ million	June 30, 2005	December 31, 2004
Current	67	88
One to three months	—	3
More than three months	—	1
	67	92

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

10. ACCOUNTS PAYABLE

An aging analysis of accounts payable is set out below:

HK$ million	June 30, 2005	December 31, 2004
Current	144	136

11. PROVISIONS

HK$ million	2005 Payment to the Government (note a)	Others	Total
Balance at January 1, 2005	6,380	31	6,411
Additional provisions included within properties under development	1,639	—	1,639
Additional provisions made	—	3	3
Provisions settled	(906)	—	(906)
Balance at June 30, 2005	7,113	34	7,147
Less: Amount classified as current liabilities	(4,608)	(34)	(4,642)
Balance at June 30, 2005	2,505	—	2,505

(a) Pursuant to the Cyberport Project Agreement, the Government of the Hong Kong Special Administrative Region (the "Government") shall be entitled to receive payments based on certain terms and conditions. Provision for payment to the Government 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 during the forthcoming year is classified as current liabilities.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2005

12. LONG-TERM BORROWINGS

HK$ million	2005 Long-term borrowings	Financial instrument equity reserve	Total
Analysis of long-term borrowings :			
Balance at December 31, 2004, as previously stated	3,621	—	3,621
Opening adjustment for the adoption of HKASs 32 & 39	(1,105)	1,160	55
Balance at January 1, 2005, as restated	2,516	1,160	3,676
Finance costs charged to consolidated income statement	66	—	66
Reduction in balances as a result of the Conversion	(816)	(391)	(1,207)
Interest amount payable included in current liabilities	(12)	—	(12)
	1,754	769	2,523
Less: Amount classified as current liabilities	(24)	—	(24)
Balance at June 30, 2005	1,730	769	2,499

Long-term borrowings comprise the outstanding principal amount of the convertible notes or any part thereof may, at the discretion of PCCW or its designated subsidiary, the holder of the notes, be converted into the ordinary shares of the Company, issued to PCCW (or as it may direct) at any time and from time to time on or after the date of issue (but on or prior to the maturity date) at the relevant conversion price.

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. 520,000,000 ordinary shares of the Company was issued as a result of the Conversion.

The tranche B note due 2014 with a principal amount of HK$2,420 million could be converted into new shares of HK$0.10 each at HK$3.60 per share, subject to adjustment. The tranche B note may be redeemed at 120% of the outstanding principal amount if conversion does not occur.

13. ISSUED EQUITY

	The Group	
	Number of shares	**Issued equity** HK$ million
	2,402,459,873	4,631

Movement in the share capital of the Company is as follows:

	The Company	
	Number of shares	**Nominal value** HK$ million
Authorised:		
Ordinary shares of HK$0.10 each at June 30, 2005	10,000,000,000	1,000
Issued and fully paid:		
Ordinary shares of HK$0.10 each at January 1, 2005	1,882,459,873	188
Issue of new shares for the conversion of convertible note tranche A	520,000,000	52
Ordinary shares of HK$0.10 each at June 30, 2005	2,402,459,873	240

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2005

14. CAPITAL COMMITMENTS

HK$ million	June 30, 2005	December 31, 2004
Authorised and contracted for	1,564	1,858
Authorised but not contracted for	1,535	2,237
	3,099	4,095

15. CONTINGENT LIABILITIES

HK$ million	June 30, 2005	December 31, 2004
Performance guarantee	1	1
Corporate guarantee (note (i))	—	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 held for sale. Such guarantees have been released during the six-month period ended June 30, 2005.

(ii) 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.

16. CHARGES ON ASSETS AND BANKING FACILITIES

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

HK$ million	June 30, 2005	December 31, 2004
Bank deposit	1	1

Aggregate banking facilities as at June 30, 2005 were HK$20 million (December 31, 2004: HK$20 million) of which the unused facilities amounted to HK$19 million (December 31, 2004: HK$19 million).

17. MATERIAL RELATED PARTY TRANSACTIONS

The Group is controlled by PCCW, incorporated in Hong Kong, which owns 61.66% of the Company's shares. The remaining 38.34% of the shares are widely held. PCCW is also regarded as the ultimate holding company of the Group.

The following transactions were carried out with related parties:

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

	Six months ended June 30,	
HK$ million	**2005**	2004
Sales of services :		
- Fellow subsidiaries		
Facility management services	**24**	22
Office leases rental	**12**	28
- Other related companies		
Facility management services	**11**	10
Purchase of fixed assets :		
- Fellow subsidiary		
Purchase of interest in leasehold land	**—**	158
Purchases of services :		
- Fellow subsidiaries		
Corporate services	**2**	17
Office sub-leases	**5**	4
Information technology and other logistic services	**26**	9

The above transactions were carried out after negotiations between the Group and the related parties in the ordinary course of business and on the basis of estimated market value as determined by the directors. In respect of transactions for which the price or volume has not yet been agreed with the relevant related parties, the directors have determined the relevant amounts based on their best estimation.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2005

17. MATERIAL RELATED PARTY TRANSACTIONS - CONTINUED

(b) Details of key management compensation of the Group

HK$ million	Six months ended June 30, 2005	Six months ended June 30, 2004
Salaries and other short-term employee benefits	23	13
Post-employment benefits	1	1
	24	14

(c) Period-end balances arising from sales/purchases of fixed assets/services and loan interest

HK$ million	June 30, 2005	December 31, 2004
Receivables from related parties :		
- Fellow subsidiaries	4	12
- Other related companies	3	7
	7	19
Payables to related parties :		
- Ultimate holding company	12	16
- Fellow subsidiaries	16	10
	28	26

17. MATERIAL RELATED PARTY TRANSACTIONS - CONTINUED

(d) Loans advanced from related parties

	Six months ended June 30,	
HK$ million	2005	2004
Loans from ultimate holding company :		
Beginning of period	7,528	4,862
Issue of convertible notes	—	3,590
Loans advanced	—	1,494
Conversion of convertible note	(1,170)	—
Repayment of loans	(497)	(1,529)
Interest expensed	12	8
Interest amount payable included in current liabilities	(12)	(8)
Provision for redemption premium	24	7
End of period	5,885	8,424

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2005

17. MATERIAL RELATED PARTY TRANSACTIONS - CONTINUED

(d) Loans advanced from related parties - Continued

The balance due to ultimate holding company as at June 30, 2005 represents the aggregated amount of the face value of the loans including the following:

(i) The convertible note (tranche B note due 2014) with face value of HK$2,420 million (December 31, 2004: HK$2,420 million) together with the provision for redemption premium of HK$55 million (December 31, 2004: HK$31 million) (note 12); and

(ii) Interest free loan of HK$3,410 million (December 31, 2004: HK$3,907 million).

	Six months ended June 30,	
HK$ million	**2005**	2004
Loans from a fellow subsidiary :		
Beginning of period	—	2,000
Interest expensed	—	25
Repayment of loans and interest	—	(2,025)
End of period	—	—

18. COMPARATIVE FIGURES

The preceding interim financial statements issued by the Group was for the nine months ended September 30, 2004 prior to the Company changing its financial year end date from March 31 to December 31. The comparative figures presented in this interim report are prepared by the Company for comparison purposes only and have been adjusted for the impact of the relevant new HKFRSs.