

# REPORT OF THE DIRECTORS

The directors present their annual report and the audited consolidated financial statements of Pacific Century Premium Developments Limited (the “Company”) and its subsidiaries (the “Group”) for the year ended December 31, 2005.

## PRINCIPAL ACTIVITIES

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

## MAJOR TRANSACTION

On February 7, 2005, Partner Link Investments Limited (“Partner Link”), an indirect wholly-owned subsidiary of the Company, sold PCCW Tower in Quarry Bay, Hong Kong to Richly Leader Limited (the “Purchaser”) for a cash consideration of HK\$2,808 million. Pursuant to a deed of rental guarantee, Partner Link guarantees a net rental of HK\$13,338,000 per month to the Purchaser for a period of 5 years commencing from the date following completion of the disposal. Details of the sale were set out in the Company’s circular dated December 30, 2004.

## SUBSIDIARIES

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

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2005 are set out in the consolidated financial statements on page 56.

An interim dividend of 1.5 Hong Kong cents per ordinary share, totalling approximately HK\$36 million, was paid to shareholders of the Company on September 16, 2005.

The directors have recommended the payment of a final dividend of 5.5 Hong Kong cents per ordinary share for the year ended December 31, 2005 to shareholders whose names appear on the register of members of the Company on May 16, 2006, payable on or around May 23, 2006. The register of members will be closed from May 11, 2006 to May 16, 2006, both days inclusive.

## RESERVES

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

## FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of the Group for the last five financial years is set out on page 156.

## PROPERTY, PLANT AND EQUIPMENT

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

## SHARE CAPITAL

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

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2005, the aggregate sales attributable to the Group's five largest customers represented approximately 35.69% of the Group's total sales, while the sales to the Group's largest customer accounted for approximately 25.19% of the Group's total sales. The aggregate purchases attributable to the Group's five largest suppliers represented approximately 68.80% of the Group's total purchases, while the purchases from the Group's largest supplier accounted for approximately 47.54% of the Group's total purchases.

One of the major suppliers, Paul Y. – ITC General Contractors Limited was a connected person of the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") until May 10, 2005 as it had been controlled by Dr Chan Kwok Keung, Charles, an ex-director of the Company who resigned on May 10, 2004.

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

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## DIRECTORS

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

### Executive Directors

Li Tzar Kai, Richard (*Chairman*)

Yuen Tin Fan, Francis (*Deputy Chairman*)

Lee Chi Hong, Robert (*Chief Executive Officer*)

Alexander Anthony Arena

Hubert Chak (*Chief Financial Officer*)

James Chan

(appointed on August 18, 2005)

Gan Kim See, Wendy

(appointed on August 18, 2005)

### Non-Executive Director

Dr Allan Zeman, GBS, JP

### Independent Non-Executive Directors

Ronald James Blake, OBE, JP

(resigned on March 17, 2006)

Cheung Kin Piu, Valiant

Tsang Link Carl, Brian

Prof Wong Yue Chim, Richard, SBS, JP

In accordance with Bye-law 86(2) of the Company's Bye-laws, James Chan and Gan Kim See, Wendy, who were appointed on August 18, 2005, shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In addition, all non-executive Directors are appointed for a term of 2 years. As Dr Allan Zeman and Prof Wong Yue Chim, Richard were re-elected as Directors at the general meeting in 2004, they shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Furthermore, in accordance with Bye-laws 87 (1) and (2) of the Company's Bye-laws, Hubert Chak shall retire by rotation at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

## **DIRECTORS' SERVICE CONTRACTS**

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

Each of James Chan and Gan Kim See, Wendy had entered into a service contract with an indirect wholly-owned subsidiary of the Company which may be terminated by either party on three months' notice.

The non-executive directors were appointed for a term of two years from the date of appointment or re-election.

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

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

As at December 31, 2005, the directors and the chief executive of the Company and their associates had the following interests and short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were recorded in the register required to be kept under section 352 of the SFO; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules :

### **1. The Company**

None of the directors or the chief executive of the Company or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company, as at December 31, 2005.

# REPORT OF THE DIRECTORS

## 2. Associated Corporations of the Company

### A. Interests in PCCW Limited ("PCCW")

The table below sets out the aggregate long positions of the directors and the chief executive of the Company in the shares and underlying shares of PCCW, the ultimate holding company of the Company, as at December 31, 2005.

Name of director/ chief executive	Number of ordinary shares				Number of underlying shares held under equity derivatives	Total	Percentage of issued share capital
	Personal interests	Family interests	Corporate interests	Other interests			
Li Tzar Kai, Richard	—	—	36,295,600 <i>(Note 1(a))</i>	1,746,122,668 <i>(Note 1(b))</i>	679,000 <i>(Note 1(c))</i>	1,783,097,268	26.52%
Yuen Tin Fan, Francis	—	—	—	—	20,068,000 <i>(Note 2)</i>	20,068,000	0.30%
Lee Chi Hong, Robert	992,600 <i>(Note 3(a))</i>	511 <i>(Note 3(b))</i>	—	—	6,000,000 <i>(Note 2)</i>	6,993,111	0.10%
Alexander Anthony Arena	760,000	—	—	—	15,800,200 <i>(Note 4)</i>	16,560,200	0.25%
Hubert Chak	—	—	—	—	2,840,000 <i>(Note 2)</i>	2,840,000	0.04%
James Chan	—	—	—	—	210,000 <i>(Note 2)</i>	210,000	0.003%
Gan Kim See, Wendy	—	—	—	—	420,000 <i>(Note 2)</i>	420,000	0.006%

*Notes:*

1. (a) Of these shares of PCCW, Pacific Century Diversified Limited (“PCD”), a wholly-owned subsidiary of Chiltonlink Limited, held 2,548,600 shares and Eisner Investments Limited held 33,747,000 shares. Li Tzar Kai, Richard owns 100% of Chiltonlink Limited and Eisner Investments Limited.
- (b) These interests represented:
  - (i) a deemed interest in 36,726,857 shares of PCCW held by Yue Shun Limited, a subsidiary of Hutchison Whampoa Limited (“HWL”). Cheung Kong (Holdings) Limited (“Cheung Kong”) through certain subsidiaries held more than one-third of the issued share capital of HWL. Li Tzar Kai, Richard was a discretionary beneficiary of certain discretionary trusts which held units in unit trusts which in turn held interests in certain shares in Cheung Kong and HWL. Li Tzar Kai, Richard was also interested in one-third of the issued share capital of two companies which owned all the shares in the trustee companies which acted as trustees of such discretionary trusts and unit trusts. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 36,726,857 shares of PCCW held by Yue Shun Limited;
  - (ii) a deemed interest in 20,354,286 shares of PCCW held by Pacific Century Group Holdings Limited (“PCGH”). Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 20,354,286 shares of PCCW held by PCGH;
  - (iii) a deemed interest in 1,526,094,301 shares of PCCW held by Pacific Century Regional Developments Limited (“PCRD”), a company in which PCGH had, through certain wholly-owned subsidiaries including Anglang Investments Limited, Pacific Century Group (Cayman Islands) Limited, Pacific Century International Limited and Borsington Limited, an aggregate 75.33% interest. Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 1,526,094,301 shares of PCCW held by PCRD; and
  - (iv) a deemed interest in 162,947,224 shares of PCCW held by a collective investment scheme in which PCD (a corporation 100% controlled by Li Tzar Kai, Richard - see above) was a holder.
- (c) This number represented interests under listed equity derivatives arising through corporations controlled by PCGH, in which Li Tzar Kai, Richard was deemed interested as the founder of certain trusts which held 100% of PCGH and comprises an interest in 679,000 underlying shares held by PCRD in the form of 67,900 American Depositary Receipts (“ADRs”), each representing 10 shares of PCCW.

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2. These interests represented the interests in underlying shares in respect of share options granted by PCCW to the directors and the chief executive of the Company as beneficial owners as at December 31, 2005, details of which are set out as follows:

Name of director/ chief executive	Date of grant	Vesting period	Exercisable period	Exercise price HK\$	Number of options	
					Outstanding at 01.01.2005	Outstanding at 12.31.2005
Yuen Tin Fan, Francis	08.28.1999	08.17.2000 to 08.17.2004	08.17.2003 to 08.17.2009	11.78	2,134,000	2,134,000
	08.26.2000	08.26.2001 to 08.26.2005	08.26.2001 to 08.26.2010	60.12	3,200,000	3,200,000
	02.20.2001	08.26.2001 to 08.26.2005	08.26.2001 to 01.22.2011	16.84	3,200,000	3,200,000
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.35	8,534,000	8,534,000
	02.08.2005	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.475	—	3,000,000
Lee Chi Hong, Robert	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.35	5,000,000	5,000,000
	02.08.2005	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.475	—	1,000,000
Alexander Anthony Arena	08.28.1999	08.17.2000 to 08.17.2004	08.17.2000 to 08.17.2009	11.78	3,200,000	3,200,000
	08.26.2000	08.26.2001 to 08.26.2005	08.26.2001 to 08.26.2010	60.12	1,600,000	1,600,000
	02.20.2001	08.26.2001 to 08.26.2005	08.26.2001 to 01.22.2011	16.84	1,600,000	1,600,000
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.35	6,400,000	6,400,000
	02.08.2005	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.475	—	3,000,000

Name of director/ chief executive	Date of grant	Vesting period	Exercisable period	Exercise price HK\$	Number of options	
					Outstanding at 01.01.2005	Outstanding at 12.31.2005
Hubert Chak	11.06.1999	10.25.2000 to 10.25.2002	10.25.2000 to 10.25.2009	22.76	300,000	300,000
	02.20.2001	01.22.2002 to 01.22.2006	01.22.2002 to 01.22.2011	16.84	300,000	300,000
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.35	240,000	240,000
	02.08.2005	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.475	—	2,000,000
James Chan	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.35	210,000	210,000
Gan Kim See, Wendy	01.22.2001	01.22.2002 to 01.22.2004	01.22.2002 to 01.22.2011	16.84	180,000	180,000
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.35	240,000	240,000

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

3. (a) These shares were held jointly by Lee Chi Hong, Robert and his spouse.  
(b) These shares were held by the spouse of Lee Chi Hong, Robert.
4. These interests represented Alexander Anthony Arena's beneficial interest in: (i) 200 underlying shares held in the form of 20 ADRs which constituted listed equity derivatives; and (ii) 15,800,000 underlying shares in respect of share options granted by PCCW to Alexander Anthony Arena as beneficial owner, details of which are set out in Note 2 above.

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

Under the SFO, Li Tzar Kai, Richard was deemed as at December 31, 2005 to have short positions held pursuant to equity derivatives in respect of an aggregate of 234,000,258 underlying shares of PCCW, representing 3.48% of the total issued share capital of PCCW. Details of the short positions are as follows:

- (a) a short position in respect of 231,839,258 underlying shares of PCCW (such shares being beneficially held by PCRDR) which arose under certain unlisted physically settled equity derivatives issued by PCRDR pursuant to which the derivative holders have the right to call for the delivery of 231,839,258 shares of PCCW. Li Tzar Kai, Richard's deemed short position arose as the founder of certain trusts which held 100% of PCGH of which PCRDR is a controlled corporation under the SFO; and
- (b) through PCD (a corporation 100% controlled by Li Tzar Kai, Richard - see above) a short position in respect of 2,161,000 underlying shares of PCCW which arose under an agreement entered into with So Chak Kwong, Jack, a director of PCCW, such interest constituted, for the purposes of the SFO, a short position of a corporation controlled by Li Tzar Kai, Richard under an unlisted physically settled equity derivative pursuant to which such shares of PCCW will be transferred to So Chak Kwong, Jack on the third anniversary of his employment with PCCW.

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

Particulars of the Company's share option scheme are set out in note 25 to the consolidated financial statements. Details of the options which have been granted to the following category of participants under the share option scheme during the year ended December 31, 2005 are as follows:

1. Outstanding options at January 1, 2005 and at December 31, 2005

Category of participant	Date of grant	Vesting period	Exercisable period	Exercise price HK\$	Number of options	
					Outstanding at 01.01.2005	Outstanding at 12.31.2005
Directors of the Company's subsidiary	12.20.2004	Fully vested on 12.20.2004	12.20.2004 to 12.19.2014	2.375	10,000,000	10,000,000

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

2. Options granted during the year ended December 31, 2005

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

3. Options exercised during the year ended December 31, 2005

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

4. Options cancelled or lapsed during the year ended December 31, 2005

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

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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## DIRECTORS' INTERESTS IN CONTRACT OF SIGNIFICANCE

No contract of significance (as defined in Appendix 16 of the Listing Rules) to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at any time during the year.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at December 31, 2005, directors of the Company had the following interests in businesses apart from the Group's business, which compete or are likely to compete, either directly or indirectly, with the Group's business:

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

*Notes:*

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

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

Further, Li Tzar Kai, Richard, Yuen Tin Fan, Francis and Alexander Anthony Arena are directors of PCRCD. PCRCD acts as an investment holding company of, among others, interests in PCCW and property investments in India and Vietnam.

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

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

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

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

## INTERESTS AND SHORT POSITIONS IN SHARES OF SUBSTANTIAL SHAREHOLDERS

As at December 31, 2005, the following shareholder (other than directors or the chief executive of the Company) had an interest in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

### A. Interests in the Company

Name of shareholder	Number of shares/underlying shares held	Percentage of issued share capital
PCCW	2,153,555,555 ( <i>Note</i> )	89.64%

*Note:*

These interests represented:

- (i) an interest in 1,481,333,333 shares in the Company held by Asian Motion Limited, a wholly-owned subsidiary of PCCW; and
- (ii) an interest in respect of 672,222,222 underlying shares in the Company held by PCCW-HKT Partners Limited, a wholly-owned subsidiary of PCCW, arising as a result of the holding of the HK\$2,420 million tranche B convertible note issued by the Company,

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

As at December 31, 2005, the Company had not been notified of any other persons who had a short position in the shares or underlying shares of the Company.

Save as disclosed above, the Company had not been notified of any other person (other than directors or the chief executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO as at December 31, 2005.

## MANAGEMENT CONTRACTS

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

## RETIREMENT BENEFITS SCHEMES

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

## PUBLIC FLOAT

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

## CHARITABLE DONATIONS

During the year, the Group made charitable donations of approximately HK\$2 million (2004: Nil).

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

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## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, although no restrictions against such rights exist under the laws in Bermuda.

## CONNECTED TRANSACTIONS

Since the publication of the Company's annual report for the year ended December 31, 2004, the Group had entered into (or continued to be party to) certain transactions which are "connected transactions" or "continuing connected transactions" as defined in the Listing Rules and which are subject to disclosure requirements under Chapter 14A of the Listing Rules. The Company has complied with such disclosure requirements. Details of such transactions are as follows:

### A. CONNECTED TRANSACTIONS

I. As disclosed in the Company's announcements dated April 22, 2005 and June 30, 2005, each of the following transactions entered into between the Group and the PCCW Group during the year ended December 31, 2005 was exempt from any reporting and announcement requirements under the Listing Rules but reporting and announcement of them became necessary following the requirement of the Stock Exchange to aggregate them pursuant to Rule 14A.25 of the Listing Rules:

(1) Date of agreement	:	January 1, 2005
Parties	:	(i) Cyber-Port Limited ("CPL"); and (ii) Unihub Limited (now known as PCCW Solutions Limited) ("PSL"), a wholly-owned subsidiary of PCCW
Purpose	:	Provision of on-going technical support services for the operation and maintenance of Computer Sales System for the sale of the residential portion of Cyberport
Term	:	January 1, 2005 - December 31, 2005
Consideration	:	HK\$318,804

- (2) Date of agreement : March 1, 2005
- Parties : (i) CPL; and  
(ii) PSL
- Purpose : Variation works of design and build of Homeportal System for the residential portion of Cyberport
- Consideration : HK\$428,653
- (3) Date of agreement : March 1, 2005
- Parties : (i) Cyber-Port Management Limited, a wholly-owned subsidiary of the Company; and  
(ii) PSL
- Purpose : The enhancement and maintenance of the cost management system of the Group
- Consideration : HK\$152,050
- (4) Date of commencement of work : April 11, 2005
- Parties : (i) CPL; and  
(ii) PCCW-HKT Network Services Limited (“PNSL”), a wholly-owned subsidiary of PCCW
- Purpose : Alteration and addition works for the re-wiring of telephone cable for Phase R1B of the residential portion of Cyberport
- Consideration : HK\$51,790
- (5) Date of agreement : May 13, 2005
- Parties : (i) CPL; and  
(ii) PNSL
- Purpose : Installation of 11 telephone lines for Mu-lan Spa in Bel-Air Clubhouse
- Consideration : HK\$5,225

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- (6) Date of agreement : May 27, 2005  
Parties : (i) CPL; and  
(ii) PNSL  
Purpose : Installation of 3 telephone lines for IL COLPO Salon in Bel-Air Clubhouse  
Consideration : HK\$1,425
- (7) Date of commencement of work : June 1, 2005  
Parties : (i) PCPD Operations Limited, a wholly-owned subsidiary of the Company; and  
(ii) PSL  
Purpose : Data migration from PCCW human resources system to the Company  
Consideration : HK\$1,698
- (8) Date of commencement of work : June 21, 2005  
Parties : (i) CPL; and  
(ii) PNSL  
Purpose : Alteration and addition works for re-wiring of telephone cables for Phase R1B (T16, 53/F) of the residential portion of Cyberport  
Consideration : HK\$3,960

II. On April 2, 2005, CPL entered into a letter of acceptance with Paul Y. – ITC Construction & Engineering Co. Limited (“Paul Y.”), a company controlled by Dr Chan Kwok Keung, Charles, an ex-director of the Company who resigned on May 10, 2004, in relation to the appointment of Paul Y. as main contractor to carry out the demolition of the show suite, site formation works including soil and rock excavation, open excavation works, footing works at Phase RV area of Residence Bel-Air at a consideration of HK\$63,380,000. Details of this transaction were set out in the Company’s announcement dated April 6, 2005.

- III. On September 26, 2005, Talent Master Investments Limited, a wholly-owned subsidiary of the Company, entered into a letter of agreement with PCCW-HKT Telephone Limited, a wholly-owned subsidiary of PCCW, pursuant to which PCCW-HKT Telephone Limited agreed to contribute an amount of HK\$7,752,813.82 towards the cost of certain addition and alteration works on the electrical and mechanical provisions at the existing telephone exchange building erected on the site at No. 1 Wo Fung Street, Sheung Wan, Hong Kong. Details of such letter of agreement were set out in the Company's announcement dated September 26, 2005.

#### B. CONTINUING CONNECTED TRANSACTIONS

- (1) As disclosed in the Company's annual report for the year ended December 31, 2004, on November 29, 2002, PCCW-HKT Limited ("HKT"), a wholly owned subsidiary of PCCW, entered into a HKT General Shared Services (Variation) Agreement ("Shared Services Agreement") with Reach Networks Hong Kong Limited ("Reach"), an indirect subsidiary of PCCW. HKT and PCPD Facilities Management Limited ("PCPD FM") orally agreed on September 1, 2003 that PCPD FM would provide a range of services to Reach under the Shared Services Agreement on behalf of HKT. On April 29, 2004, HKT and PCPD FM entered into an agreement, pursuant to which the services would be provided to Reach for a term of 39 months commencing from October 1, 2003 and ending on December 31, 2006. On August 1, 2005, HKT and Reach entered into a supplemental agreement under which HKT agreed to provide certain lease and tenant management services to Reach. On December 6, 2005, PCPD FM entered into an agreement with Reach directly in relation to the provision of the above services for the period from January 1, 2006 to December 31, 2006 to replace the earlier three agreements. Pursuant to such replacement agreement, the service fee payable by Reach to PCPD FM is HK\$4,139,678 per annum for facilities management services plus all third party service provider costs to be charged to Reach on an open book basis without mark-up and HK\$300,000 per annum for lease and tenant management service.

The service fee paid to PCPD FM for the year ended December 31, 2005 was HK\$3,757,991.

- (2) As disclosed in the Company's annual report for the year ended December 31, 2004, PCPD FM entered into an agreement with PCCW Services Limited ("PCCW Services"), a wholly-owned subsidiary of PCCW, pursuant to which PCPD FM would provide facilities management, project management, corporate and asset management services at a fee calculated in accordance with the agreement, subject to a cap of HK\$65 million. The service fee charged by PCPD FM for the year ended December 31, 2005 was HK\$47 million.

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- (3) As disclosed in the Company's annual report for the year ended December 31, 2004, pursuant to an agreement dated April 30, 2002, PCCW Services as tenant sub-licensed level 8 of Cyberport 2 (Phase C1) to PCPD Services Limited ("PCPD Services") for office use for a term of 5 years from April 2, 2002 to April 1, 2007. A supplemental agreement was entered into between the two parties on July 2, 2003 to sub-license additional area on certain units on level 7 of Cyberport 3, Phase C1 to PCPD Services for a term of 3 years and 7 months from September 2, 2003 to April 1, 2007. Subsequently, PCPD Operations Limited and PCPD Services agreed that the rights and obligations of PCPD Services under the two sub-licences would be assigned and novated to PCPD Operations Limited with effect from May 1, 2004. On June 30, 2005, PCPD Operations Limited and PCCW Services entered into a replacement agreement under which the above premises were sub-licensed to PCPD Operations Limited from May 1, 2004 to April 1, 2007.

The aggregate contract amount (inclusive of monthly rent, management fees and rates) paid for the total gross floor area of around 21,402 square feet for the year ended December 31, 2005 was HK\$3,631,560.

- (4) As disclosed in the Company's announcement dated June 30, 2005, on June 30, 2005, the Company and PCCW Services entered into a master goods and services agreement (the "Master Agreement") for the provision by the PCCW group to the Group of certain goods and services, which include telephony equipment and services ("Telephony"), computer systems and information technology and related services ("Information Technology") and non-administrative corporate services ("Other Services"), for a term of three years from June 1, 2005 to May 31, 2008.

The aggregate contract amounts for each category of services under the Master Agreement for the period from June 1, 2005 to December 31, 2005 were summarised as follows:

Category of Services	Aggregate contract	
	amount for the period from June 1, 2005 to December 31, 2005	Annual cap for the period from June 1, 2005 to May 31, 2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Telephony	7.34	2,000
Information Technology	2,378.25	11,450
Other Services	383.32	1,700

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

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

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

- (i) all the transactions had been approved by the Board except item (3) which had been entered into prior to the completion of the acquisition by the Company of the relevant property interests of PCCW in May 2004. As it did not constitute a connected transaction at the time it was entered into, no Board approval was required;
- (ii) all the transactions were entered into in accordance with the terms of the relevant agreements governing them;
- (iii) the transactions referred to in items (1) and (2) involved the provision of goods and services and were in accordance with the relevant pricing policies of the Group; and
- (iv) the transactions referred to in items (2) and (4) did not exceed the cap disclosed in the Company's announcements dated December 6, 2004 and June 30, 2005 respectively and the transactions referred to in items (1) and (3) were not required to be subject to annual caps.

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## AUDITORS

The financial statements for the financial year ended December 31, 2005 have been audited by PricewaterhouseCoopers who will retire upon conclusion of the forthcoming annual general meeting. A resolution for the re-appointment of PricewaterhouseCoopers as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

**CHAN Ya Lai, Alice**

*Company Secretary*

Hong Kong, March 29, 2006