NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005 (Amount expressed in Hong Kong dollars unless otherwise stated)

1. GENERAL INFORMATION

Pacific Century Premium Developments Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in the development and management of property and infrastructure and investment in properties in Hong Kong and in mainland China.

The Company is a limited liability company incorporated in Bermuda and its securities are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

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 ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

b. Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss and investment properties, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

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

December 31, 2005 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

b. Basis of preparation of the financial statements – Continued

Effects 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 11	Construction Contracts
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 23	Borrowing Costs
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

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

b. Basis of preparation of the financial statements – Continued

Effects of adopting new HKFRSs - Continued

HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
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

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 11, 12, 14, 16, 18, 19, 21, 23, 24, 27, 33, 34, 36, 37, 38, HKAS-Int 15 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, 11, 12, 14, 16, 18, 19, 21, 23, 27, 33, 34, 36, 37, 38, HKAS-Int 15 and HK-Int 4 had no material effect on the Group's accounting policies.

— HKAS 24 has affected the identification of related parties and the disclosures of related-party transactions.

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.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

b. Basis of preparation of the financial statements – Continued

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

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

HK-Int 3 requires revenue arising from pre-completion sale of development properties to 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 development of the property is completed, as compared to the previous accounting policy of recognising revenues and profits on the percentage of construction completion basis.

The effect of the above changes on 2005 is a deferral of revenue recognition of HK$672 million and a deferral in recognition of profit attributable to equity holders by HK$83 million. Basic and diluted earnings per share have been reduced by 3.58 Hong Kong cents and 2.70 Hong Kong cents respectively.

(ii) 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 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 2005 results is a decrease in profit attributable to equity holders by HK$536 million. Basic and diluted earnings per share have been decreased by 23.12 Hong Kong cents and 17.44 Hong Kong cents respectively.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

b. Basis of preparation of the financial statements – Continued

(iii) Income taxes – Recovery of revaluations of investment properties

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 investment properties 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. The effect of the change on 2005 results is a reduction in profit attributable to equity holders by HK$3 million. Basic and diluted earnings per share have been reduced by 0.12 Hong Kong cents and 0.09 Hong Kong cents respectively.

(iv) 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 classified as prepayments for operating leases and 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 2005 or 2004 profit attributable to equity holders due to the change in accounting policy.

(v) Goodwill

The adoption of HKAS 36, HKAS 38 and HKFRS 3 has 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, at least on annual basis or 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 has been eliminated with a corresponding decrease in the cost of goodwill. For 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 2005 results is an increase in profit attributable to equity holders by HK$4 million. Basic and diluted earnings per share have been increased by 0.18 Hong Kong cents and 0.14 Hong Kong cents respectively. Goodwill on the consolidated balance sheet is HK$4 million higher than it would have been if the prior year's accounting policy had been followed.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

b. Basis of preparation of the financial statements – Continued

(vi) Financial assets and liabilities

The adoption of HKASs 32 and 39 resulted in the fair value of the liability portion of a convertible debt being determined using a market interest rate for an equivalent non-convertible debt. This amount is recorded as a financial liability and is measured on the amortised cost basis using the effective interest method minus principal repayment. The remainder of the proceeds from issuance of the convertible debt is allocated to the conversion option. This is recognised and included in shareholders' equity.

The retroactive adoption of HKAS 32 has resulted in an increase in convertible notes reserves at December 31, 2004 by HK$1,160 million and a decrease in retained earnings at December 31, 2004 and in profit attributable to equity holders for the year ended December 31, 2004 by HK$85 million representing the additional finance charges for 2004. The adoption of HKAS 39 on January 1, 2005 was resulted in an increase in opening retained earnings by HK$30 million, representing the difference in 2004 finance costs as a result of using amortised cost basis as compared to the old measurement basis used in prior year. The effect of the adoption of HKASs 32 and 39 on 2005 results is a reduction in profit attributable to equity holders by HK$55 million. Basic earnings per share have been reduced by 2.34 Hong Kong cents but no effect on diluted earnings per share. The increase or decrease in consolidated balance sheet items as at December 31, 2005 due to the adoption of HKASs 32 and 39 are as follows:

HK$ million	December 31, 2005
Increase in long-term borrowings	1,803
Decrease in convertible note payable to a fellow subsidiary	(2,499)
	(696)
Increase in convertible notes reserve	769
Increase in share premium	37
Decrease in retained earnings	(110)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

b. Basis of preparation of the financial statements – Continued

(vii) Share-based payments

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payment. In prior years, 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 had not vested before January 1, 2005 was expensed retrospectively in the consolidated income statements of the respective periods.

As a result of adoption of HKFRS 2, retained earnings as at January 1, 2005 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 2005 profit attributable to equity holders is a reduction in profit by HK$4 million. Basic and diluted earnings per share have been reduced by 0.20 Hong Kong cents and 0.15 Hong Kong cents respectively.

(viii) Disposal group held for sale

The Group adopted HKFRS 5 from January 1, 2005 prospectively in accordance with the standard's provisions. Under HKFRS 5, subsidiaries that were acquired exclusively with a view to resale are carried in the consolidated financial statements at the lower of carrying value and fair value less cost to sell. Until December 31, 2004, such subsidiaries were excluded from the Group's consolidation and were carried in the consolidated financial statements at cost less accumulated impairment losses. The application of HKFRS 5 has no material impact on 2005 profit attributable to equity holders.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

b. Basis of preparation of the financial statements – Continued

The major impact of the adoption of new HKFRSs to 2005 profit attributable to equity holders are summarised below:

	2005					
HK$ million	HKASs 32 & 39	HKAS 40 & HKAS-Int 21	HKFRS 2	HKFRS 3	HK-Int 3	Total
For the year ended December 31, 2005						
Increase/(decrease) in profit attributable to equity holders:						
Decrease in revenue for development properties	—	—	—	—	(672)	(672)
Decrease in cost of development properties sold	—	—	—	—	571	571
Decease in general and administrative expenses	—	31	—	—	—	31
Decrease in depreciation charges	—	4	—	—	—	4
Decease in gain on disposal of fixed asset	—	(586)	—	—	—	(586)
Surplus on revaluation of investment properties	—	16	—	—	—	16
Increase in finance costs	(55)	—	—	—	—	(55)
Increase in staff costs	—	—	(5)	—	—	(5)
Decrease in amortisation of goodwill	—	—	—	4	—	4
(Increase)/decrease in taxation	—	(4)	1	—	18	15
Total (decrease)/increase in profit attributable to equity holders	(55)	(539)	(4)	4	(83)	(677)
(Decrease)/increase in earnings per share (in Hong Kong cents)						
– Basic	(2.34)	(23.24)	(0.20)	0.18	(3.58)	(29.18)
– Diluted	—	(17.53)	(0.15)	0.14	(2.70)	(20.24)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

b. Basis of preparation of the financial statements – Continued

The major impact of the adoption of new HKFRSs to the consolidated balance sheet as at December 31, 2005 are summarised below:

	2005					
HK$ million	HKASs 32 & 39	HKAS 40 & HKAS-Int 21	HKFRS 2	HKFRS 3	HK-Int 3	Total
At December 31, 2005						
Increase/(decrease) in assets:						
Increase in investment properties	—	92	—	—	—	92
Decrease in property, plant and equipment	—	(60)	—	—	—	(60)
Increase in properties under development	—	—	—	—	721	721
Increase in goodwill	—	—	—	4	—	4
Decrease/(increase) in liabilities:						
Increase in deposits received on sales of properties	—	—	—	—	(822)	(822)
Decrease in current tax provision	—	—	1	—	18	19
Decrease in deferred tax liabilities	—	84	—	—	—	84
Decrease in long-term borrowings	696	—	—	—	—	696
Decrease/(increase) in equity:						
Increase in employee share-based compensation reserve	—	—	(15)	—	—	(15)
Increase in convertible notes reserve	(769)	—	—	—	—	(769)
Increase in share premium	(37)	—	—	—	—	(37)
Decrease/(increase) in retained earnings	110	(116)	14	(4)	83	87
	—	—	—	—	—	—

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

b. Basis of preparation of the financial statements – Continued

The major impact of the adoption of new HKFRSs to the comparative figures in the consolidated income statement for the year ended December 31, 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 amounts shown for the year ended December 31, 2004 may not be comparable with the amounts shown for the current year.

	2004				
HK$ million	HKAS 32	HKAS 40	HKFRS 2	HK-Int 21	Total
For the year ended December 31, 2004					
Increase/(decrease) in profit attributable to equity holders:					
Increase in staff costs	—	—	(7)	—	(7)
Decrease in depreciation charges	—	24	—	—	24
Deficit on revaluation of investment properties	—	(205)	—	—	(205)
Increase in general and administrative expenses	—	(31)	—	—	(31)
Increase in finance costs	(85)	—	—	—	(85)
Decrease/(increase) in deferred tax	—	187	—	(18)	169
Total decrease in profit attributable to equity holders	(85)	(25)	(7)	(18)	(135)
Decrease in earnings per share (in Hong Kong cents)					
– Basic	(4.87)	(1.44)	(0.38)	(1.05)	(7.74)
– Diluted	—	(1.00)	(0.26)	(0.73)	(1.99)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

b. Basis of preparation of the financial statements – Continued

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

	2004					
HK$ million	HKAS 32	HKAS 17	HKAS 40	HKAS-Int 21	HKFRS 2	Total
At December 31, 2004						
Increase/(decrease) in assets:						
Increase in investment properties	—	—	1,106	—	—	1,106
Decrease in property, plant and equipment	—	(155)	(688)	—	—	(843)
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 in long-term borrowings	1,075	—	—	—	—	1,075
Decrease/(increase) in equity:						
Decrease in property revaluation reserve	—	—	180	—	—	180
Increase in employee share-based compensation reserve	—	—	—	—	(10)	(10)
Increase in convertible notes reserve	(1,160)	—	—	—	—	(1,160)
Decrease/(increase) in retained earnings	85	—	(567)	(88)	10	(560)
	—	—	—	—	—	—

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

b. Basis of preparation of the financial statements – Continued

Impact of further new accounting standards

The HKICPA has issued new and amendments to Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are effective for accounting periods commencing on or after December 31, 2005.

(i) HKAS 19 (Amendment), Employee Benefits (effective from January 1, 2006)

This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment will only impact the format and extent of disclosures presented in the accounts. The Group will apply this amendment from annual periods beginning January 1, 2006.

(ii) HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from January 1, 2006)

The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedge item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss. The amendment is not relevant to the Group's operations, as the Group does not have any intragroup transactions that would qualify as a hedged item in the consolidated financial statements as at December 31, 2005 and 2004.

(iii) HKAS 39 (Amendment), The Fair Value Option (effective from January 1, 2006)

This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. Management is currently assessing the impact of this amendment on the Group's financial statements.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

b. Basis of preparation of the financial statements – Continued

Impact of further new accounting standards – Continued

(iv) HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts (effective from January 1, 2006)

This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. Management has considered this amendment to HKAS 39 and HKFRS 4 and concluded that they are not relevant to the Group.

(v) HKFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures (effective from January 1, 2007)

HKFRS 7 introduces new disclosures to improve the information provided for financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces HKAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and the disclosure requirements in HKAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under HKFRS. The amendment to HKAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning January 1, 2007.

(vi) HKFRS-Int 4, Determining whether an Arrangement contains a Lease (effective from January 1, 2006)

HKFRS-Int 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of HKFRS-Int 4 on the Group's operations.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

c. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries other than those unconsolidated subsidiaries acquired exclusively with a view for resale (see note 2(b)(viii)), 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. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investment in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

As stated in note 2(d) to the 2004 Financial Statements, considering that certain subsidiaries of the Company were acquired and held by the Group exclusively with a view to their subsequent disposal in the near future, the investment in these subsidiaries is accounted for as a disposal group held for sale and stated at the lower of carrying amount and fair value less costs to sell as at December 31, 2005. The investment in these subsidiaries is recorded as "Investment in unconsolidated subsidiaries held for sale" under current assets in the consolidated balance sheet with a carrying value of approximately HK$45 million (2004: HK$51 million).

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

d. Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and that 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 profits arising from sales of completed properties is recognised upon execution of legally binding unconditional sales contracts upon which the beneficial interest in the property passes to the purchasers together with the significant risks and rewards of ownership.

As required by HK-Int 3, for 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 upon completion of the development and when significant risks and reward of ownership have been transferred. Deposits and instalments received from purchasers prior to this stage are included in current liabilities.

If the pre-completion contracts for the sale of development properties for which legally binding unconditional sales contracts were entered into before January 1, 2005, as permitted by the transitional provisions of HK-Int 3, revenues and profits continue to be recognised on the percentage of construction completion basis commencing when these 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 profits is apportioned over the entire period of construction to reflect the progress of the development. Deposits and instalments received from purchasers are netted off from properties under development.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

d. 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 against total contract revenue.

(iv) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis using the effective interest method by reference to the principal outstanding and the rates applicable.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

e. 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 as set out in note 2(g). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 2(d)(ii).

(ii) Operating lease charges

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

Up-front payments made for leasehold land held under operating lease are presented in the balance sheet as prepayments for operating leases and are amortised in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement.

When the definite intention to develop the leasehold land is clear and action initiated, leasehold land held under operating lease for sale is reclassified as properties under development and the amortisation of the operating lease is capitalised in properties under development until the completion of the development.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

f. Property, plant and equipment and depreciation

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(h)). 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 property, plant and equipment 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:

Other plant and equipment	2 to 10 years

Gains or losses arising from the retirement or disposal of property, plant and equipment 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.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

g. Investment properties

A property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

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 an investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment properties are initially measured at their cost, including related transaction cost. After initial recognition, investment properties are stated in the balance sheet at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee and are prepared or reviewed annually by independent external valuers. The fair value of investment properties reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the properties. Changes in fair value arising on the revaluation of investment properties are recognised in the income statement.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

h. 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:

— interest in leasehold land;

— property, plant and equipment;

— goodwill; and

— investments in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash inflows (a cash-generating unit).

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and its value in use. Fair value less costs to sell 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.

(ii) Reversals of impairment losses

An impairment loss of an asset other than goodwill 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.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

i. Properties under development

Properties under development represent interests in land and buildings under construction. Properties under development for long-term retention purposes are stated at cost less any provision for impairment in value.

Properties under development for sale, for which pre-sales have commenced and pre-sale contracts were entered before January 1, 2005 are stated at cost plus attributable profits less any foreseeable losses, sale deposits received and instalments received and receivables (refer to note 2(d)(i)).

Properties under development for sale where the pre-sales have not yet commenced or pre-sale contracts were entered on or after January 1, 2005 are carried at the lower of cost and the estimated net realisable value. Cost includes original land acquisition costs, costs of land use rights, prepayment of leasehold land, construction expenditure incurred and other direct development costs attributable to such properties, including amortisation of leasehold land and interest incurred on loans directly attributable to the development prior to the completion of construction. The net realisable value is determined by reference to sale proceeds of properties sold in the ordinary course of business less all estimated selling expenses after the balance sheet date, or by management estimates based on prevailing market conditions.

Properties under development for long-term retention purpose, on completion, are transferred to property, plant and equipment or investment properties.

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

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

j. Goodwill

Goodwill represents the excess of the cost of an acquisition over the Group's share of the fair value of the net identifiable assets and liabilities acquired at the date of acquisition. Until December 31, 2004, goodwill arising on acquisition was capitalised and amortised on a straight-line basis over its useful economic life of 20 years and was assessed at each balance sheet date or whenever there was an indication of impairment.

From January 1, 2005 onwards, the Group ceased amortisation of goodwill and accumulated amortisation as at December 31, 2004 has been eliminated with a corresponding decrease in the cost of goodwill. Effective January 1, 2005, goodwill is tested annually or whenever there is an indication of impairment and carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Gains and losses on the disposal of an entity or business unit include the carrying amount of goodwill relating to the entity or business unit sold.

k. Financial instruments and derivatives

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.

A rental guarantee contract of the Group has been categorised as a financial liability at fair value through profit and loss at inception and is initially recognised at fair value on the date on which a contract was entered into and subsequently re-measured at its fair value at each balance sheet date. Changes in fair value of the financial liability are recognised in the income statement.

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(h)). 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 held for sale

A subsidiary that is acquired and held exclusively with a view to resale is not consolidated and is classified as unconsolidated subsidiary held for sale in the consolidated balance sheet. Unconsolidated subsidiaries held for sale are classified as current assets because their sale is expected to be completed generally within one year or a further period if events or circumstances beyond the Group's control occur but the Group is still undergoing the selling of the unconsolidated subsidiaries. The investment in unconsolidated subsidiaries held for sale is stated at the lower of carrying amount and fair value less costs to sell.

n. Construction contracts

The accounting policy for contract revenue is set out in note 2(d)(iii) above and construction costs are recognised when incurred. 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 the contract costs incurred will be recoverable and contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profits less recognised losses, estimated value of work performed including progress billing, 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".

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

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 other 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 the Group has a present obligation (legal or constructive) as a result of a past event, it is more likely than not that an outflow of resources 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 the amount required to settle the obligation. 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 resources 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.

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.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

r. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in accounts receivable and prepayments, deposits and other current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

s. Income tax

Income tax for the year comprises current tax and deferred tax. Income tax is recognised in the income statement.

(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 years.

(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

t. 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 including the Group and, in some cases, employees themselves, taking into account of the recommendations of independent qualified actuaries.

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

The Group bears its attributable share of retirement costs of the defined benefit retirement 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.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

t. Employee benefits – Continued

(iii) The Group and PCCW operate share option schemes where employees (including directors) are granted options to acquire shares of the Company or PCCW at specified exercise prices. The fair value of the employee services received in exchange for the grant of the options is recognised as staff costs in the income statement with a corresponding increase in an employee share-based compensation reserve under equity. The fair value of the options granted is measured at grant date using the trinomial option pricing model, taking into account the terms and conditions upon which the options were granted, and spread over the respective vesting period during which the employees become unconditionally entitled to the options. At each balance sheet date, the Group revises its estimates of the number of share options that is expected to become vested. The impact of the revision of original estimates, if any, is recognised in the income statement with a corresponding adjustment to the employee share-based compensation reserve over the remaining vesting period. On vesting date, the amount recognised as staff costs is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the employee share-based compensation reserve). The equity amount is recognised in the employee share-based compensation reserve until either the share options are exercised (when it is transferred to the share premium account) or the share options expires (when it is released directly to retained profits). Share options granted before November 7, 2002 or vested on or before December 31, 2004 are not expensed as they are not subject to the requirements of HKFRS 2. When the share options are exercised, the proceeds received, net of any directly attributable transaction cost, are credited to share capital (nominal value) and share premium.

u. Foreign currency translations

Companies comprising the Group maintain their books and records in the primary currencies of their operations (the "functional currencies"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

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

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

u. Foreign currency translations – Continued

For the purposes of preparing consolidated financial statements, the financial statements of the individual companies with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars as follows:

(i) assets and liabilities for each company's balance sheet are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each company's income statement are translated at average exchange rates for the year; and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to the currency translation reserve under equity. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the gain or loss on sale.

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 returns that are different from those of other segments.

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

w. Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the consolidated financial statements in the period in which the dividends are approved by the Company's shareholders.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a. The management have made judgements in applying the Group's accounting policies. The judgements that have the most significant effect on the amounts recognised in the financial statements are discussed below.

(i) Financial instruments

The Group has adopted HKAS 32 and HKAS 39, which resulted in the fair value of the liability portion of a convertible debt being determined using a market interest rate for an equivalent non-convertible debt. This amount is recorded as a financial liability and is measured on the amortised cost basis using effective interest method minus principal repayment. Judgement has been made on the market interest rate of an equivalent non-convertible debt and the effective interest rate to be used for the computation of the finance costs.

(ii) Unconsolidated subsidiaries held for sale

The Group has made the judgement that it is appropriate not to consolidate those subsidiaries which were acquired by the Group and held exclusively with a view for resale. Management had the intention, at the time of acquisition, to dispose those subsidiaries within one year of their acquisition. Although the previous agreement for disposal has expired during the year, management has concluded that non-consolidation of these subsidiaries continues to be appropriate as a binding contract for the sale of these subsidiaries have been entered into subsequent to the balance sheet date with sales proceeds to be received in instalments throughout 2006 (see note 19 for further details).

(iii) Disposal of PCCW Tower

Under the formal property sales and purchase agreement (the "Property Sales and Purchase Agreement") dated December 21, 2004, on completion of the disposal, the Group, 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. The Group considers that the significant risks and rewards associated with the ownership of the property have been transferred to the purchaser as the potential shortfall in covering the guarantee net monthly rental, if any, will be insignificant as compared to the total sales proceeds of HK$2,808 million. The Property Sales and Purchase Agreement was completed on February 7, 2005.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT – CONTINUED

b. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Revenue recognition

Similar to some other property developers in Hong Kong, the Group had adopted the "percentage of completion" method to recognise revenue arising from the pre-sale of properties under development for pre-sale contracts entered into prior to January 1, 2005. The use of the "percentage of completion" method for recognition of revenue and costs of sales requires the Group to develop estimates of total sales and total costs for the entire project as well as the stage of completion of the properties. The Group has made certain assumptions in estimating the stage of completion of properties subject to pre-sale and the estimated costs to be incurred to completion, any changes to such assumptions could be material to the financial statements.

(ii) Estimated valuation of investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair values estimates. In making its estimates, the Group considers both (i) information from the valuations of investment properties performed by external professional valuers by using the open market value approach and (ii) other principal assumptions including the receipt of contractual rentals and expected future market rentals, to determine the fair value of the investment properties.

(iii) Estimated provision for rental guarantee

With the adoption of new HKASs 32 & 39, the rental guarantee in relation to PCCW Tower is accounted for as a financial liability at fair value through the profit and loss. The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair values estimates. The Group's estimate of fair value is based on estimates of receipt of contractual rentals, future market rentals, occupancy rates, maintenance costs and appropriate discount rates. In making its judgement, the Group considers valuations performed by the external professional valuers to determine the fair value of the rental guarantee using discounted cash flow valuation techniques.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT – CONTINUED

(iv) Goodwill impairment

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2(b)(v). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates related to future cash flows of the cash-generating units to which the goodwill is attached and appropriate discount rates.

(v) Provisions

Pursuant to the Cyberport Project Agreement (note 15(a)), the Government of the Hong Kong Special Administrative Region ("HKSAR") is entitled to receive payments of approximately 65 percent from the surplus cashflow as stipulated under certain terms and conditions of the Cyberport Project Agreement arising from the sales of the residential portion of the Cyberport project. Provision for payment to the Government of the HKSAR is included as a cost within properties under development. The provision is based on estimated sales proceeds of the residential portion of the project and the estimated development costs of the Cyberport project and forms part of the development costs for the Cyberport project. In case there are any variations to the Group's estimates of projected future sales proceeds and the developments costs, there would be impact to the provisions to be made and corresponding impact on the Group's profits to be derived from the Cyberport project.

(vi) Deferred taxation

While deferred tax liabilities are provided in full on all taxable temporary differences, deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. In assessing the amount of deferred tax assets that need to be recognised, the Group considers future taxable income and ongoing prudent and feasible tax planning strategies. In the event that the Group's estimates of projected future taxable income and benefits from available tax strategies are changed, or changes in current tax regulations are enacted that would impact the timing or extent of the Group's ability to utilise the tax benefits of net operating loss carry forward in the future, adjustments to the recorded amount of net deferred tax assets and taxation expense would be made.

4. TURNOVER

Turnover comprises revenues recognised in respect of the following businesses:

	The Group	
HK$ million	**2005**	2004
Property development	**4,821**	5,415
Property investment	**233**	358
Other businesses	**73**	58
	5,127	5,831

5. 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 in properties in Hong Kong and Beijing.

— Other businesses include the property management division providing services of property management, facilities management, corporate services and asset management.

5. SEGMENT INFORMATION – CONTINUED

a. Business segments – Continued

HK$ million	Property development 2005	Property development 2004	Property investment 2005	Property investment 2004 (restated)	Other businesses 2005	Other businesses 2004	Eliminations 2005	Eliminations 2004	Consolidated 2005	Consolidated 2004 (restated)
TURNOVER										
External revenue	**4,821**	5,415	**233**	358	**73**	58	**—**	—	**5, 127**	5,831
Inter-segment revenue	**—**	—	**—**	—	**37**	66	**(37)**	(66)	**—**	—
Total revenue	**4,821**	5,415	**233**	358	**110**	124	**(37)**	(66)	**5,127**	5,831
RESULT										
Segment results	**548**	551	**104**	20	**2**	(32)	**—**	—	**654**	539
Unallocated corporate expenses									**(33)**	(58)
Interest income									**222**	8
Finance costs									**(127)**	(172)
Impairment of investment in unconsolidated subsidiaries held for sale									**(6)**	(4)
Profit before taxation									**710**	313
Taxation									**(113)**	39
Profit attributable to equity holders of the Company									**597**	352

5. SEGMENT INFORMATION – CONTINUED

a. Business segments – Continued

	Property development		Property investment		Other businesses		Eliminations		Consolidated	
HK$ million	2005	2004	2005	2004 (restated)	2005	2004	2005	2004	2005	2004 (restated)
OTHER INFORMATION										
Capital expenditure (including fixed assets) incurred during the year	—	—	7	173	6	3	—	—	13	176
Depreciation and amortisation	—	—	8	6	3	5	—	—	11	11
Surplus/(deficit) on revaluation of investment properties credited/(charged) to income statement	—	—	16	(205)	—	—	—	—	16	(205)
Impairment losses recognised in income statement	—	—	—	—	6	4	—	—	6	4
Provision for doubtful debts	—	—	—	—	7	—	—	—	7	—
Employee share option benefits	—	—	—	—	5	7	—	—	5	7
ASSETS										
Segment assets	13,417	11,991	3,804	6,673	72	82	—	—	17,293	18,746
Investment in unconsolidated subsidiaries held for sale									45	51
Unallocated corporate assets									3,306	923
Consolidated total assets									20,644	19,720
LIABILITIES										
Segment liabilities	12,534	11,907	437	714	52	41	—	—	13,023	12,662
Unallocated corporate liabilities									1,864	2,617
Consolidated total liabilities									14,887	15,279

5. 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	
HK$ million	**2005**	2004	**2005**	2004 (restated)	**2005**	2004
Hong Kong	**4,915**	5,630	**16,877**	16,045	**6**	163
Mainland China	**212**	201	**3,767**	3,675	**7**	13
	5,127	5,831	**20,644**	19,720	**13**	176

6. FINANCE COSTS

	The Group	
HK$ million	**2005**	2004 (restated) (notes 2(b) and 35)
Interest expense:		
Bank loan wholly repayable within 5 years	**—**	10
Other loans wholly repayable within 5 years	**—**	29
Convertible notes wholly repayable after 5 years (note 21)	**127**	133
	127	172

7. PROFIT BEFORE TAXATION

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

	The Group	
HK$ million	2005	2004 (restated) (note 2(b))
Crediting:		
Gross rental income	233	358
Less: outgoings	(21)	(54)
Surplus/(deficit) on revaluation of investment properties	16	(205)
Gain on disposal of investment property	8	—
Charging:		
Cost of properties sold	4,119	4,665
Depreciation, included in:		
– cost of sales	1	—
– general and administrative expenses	10	8
Staff costs, included in:		
– cost of sales	43	52
– general and administrative expenses	86	89
Contributions to defined benefit retirement scheme, included in:		
– cost of sales	1	—
Contributions to defined contribution retirement scheme, included in:		
– cost of sales	3	3
– general and administrative expenses	3	5
Auditors' remuneration		
– current year	2	2
Operating lease rental		
– land and buildings	3	3
– equipment	2	1
Value of services obtained from directors and employees under share option scheme	5	7
Provision for doubtful debts	7	—
Amortisation of goodwill	—	3

8. DIRECTORS' EMOLUMENTS

a. Cash and cash equivalents paid by the Group during the year

HK$ '000	The Group 2005 Directors' fee	The Group 2005 Salaries, allowances, other allowances and benefits in kind	The Group 2005 Bonuses	The Group 2005 Retirement scheme contributions	The Group 2004 Directors' fee	The Group 2004 Salaries, allowances, other allowances and benefits in kind	The Group 2004 Bonuses	The Group 2004 Retirement scheme contributions
Executive Directors								
Li Tzar Kai, Richard (note (i))	—	—	—	—	—	—	—	—
Yuen Tin Fan, Francis (note (i))	—	—	—	—	—	—	—	—
Lee Chi Hong, Robert	—	11,000	7,904	904	—	10,000	7,800	827
Alexander Anthony Arena (note (i))	—	—	—	—	—	—	—	—
Hubert Chak (note (i))	—	—	1,600	—	—	—	—	—
James Chan (note (ii))	—	2,891	2,379	243	—	—	—	—
Gan Kim See, Wendy (note (ii))	—	2,891	4,216	253	—	—	—	—
Non-executive Director								
Dr Allan Zeman, GBS, JP	150	—	—	—	87	—	—	—
Independent Non-executive Directors								
Ronald James Blake, OBE, JP	200	—	—	—	108	—	—	—
Cheung Kin Piu, Valiant	200	—	—	—	50	—	—	—
Tsang Link Carl, Brian	150	—	—	—	100	—	—	—
Prof Wong Yue Chim, Richard, SBS, JP	200	—	—	—	100	—	—	—
Total	900	16,782	16,099	1,400	445	10,000	7,800	827

8. DIRECTORS' EMOLUMENTS – CONTINUED

a. Cash and cash equivalents paid by the Group during the year – Continued

(i) For executive directors employed by PCCW Limited, the ultimate holding company of the Group, their remunerations are borne by PCCW. In addition, the Company paid a bonus to Hubert Chak in 2005. Accordingly, the 2004 comparative figures are revised to exclude those executive directors employed by PCCW and whose remunerations were borne by PCCW.

(ii) Appointed as executive director on August 18, 2005. The emoluments showing in this table are for full year figure.

(iii) The total directors' emoluments for the year ended December 31, 2005, including the amortised share-based compensation, were HK$39 million (2004: HK$23 million).

(iv) No directors waived the right to receive emoluments during the years for 2005 and 2004.

8. DIRECTORS' EMOLUMENTS – CONTINUED

b. Share-based compensation

For executive directors employed by PCCW, the values of their services under share option scheme which were borne by PCCW, they are excluded from below.

The Group

2005

	Grant date	Exercise price of share options	Number of share options/shares outstanding at beginning of year	Number of options exercised/ shares transferred	Number of share options/shares outstanding at end of year	Number of share options vested	Share-based compensation charged to income statement (note (ii))	Realised benefits (note (i))
		HK$					HK$'000	HK$'000
Executive Directors								
Lee Chi Hong, Robert	July 25, 2003	4.35	5,000,000	—	5,000,000	3,333,333	2,745	—
	February 8, 2005	4.475	1,000,000	—	1,000,000	—	660	—
James Chan	July 25, 2003	4.35	210,000	—	210,000	140,000	188	—
Gan Kim See, Wendy	July 25, 2003	4.35	240,000	—	240,000	160,000	215	—
							3,808	—

8. DIRECTORS' EMOLUMENTS – CONTINUED

b. Share-based compensation – Continued

		The Group 2004						
	Grant date	Exercise price of share options HK$	Number of share options/shares outstanding at beginning of year	Number of options exercised/ shares transferred	Number of share options/shares outstanding at end of year	Number of share options vested	Share-based compensation charged to income statement (note (ii)) HK$'000	Realised benefits (note (i)) HK$'000
Executive Director								
Lee Chi Hong, Robert	July 25, 2003	4.35	5,000,000	—	5,000,000	1,666,666	3,725	—
							3,725	—

(i) Realised benefits

No director exercised share options in 2005 and 2004. The realised benefits represent the market value of the relevant shares at the date of transfer.

(ii) Share-based compensation charged to income statement

Share-based compensation is a trinomial option pricing model calculation of the fair value of share options at the date of grant. Share-based compensation is amortised in the income statement over the vesting period of the related share options. These values do not represent realisable gains which are affected by a combination of a number of factors, including, performance of PCCW's share price, vesting period, timing of exercise etc.

9. FIVE TOP-PAID EMPLOYEES

a. Of the five highest paid individuals in the Group, three (2004: one) are directors whose emoluments are set out in note 8. Details of the emoluments of the other two highest paid individuals (2004: four) were as follows:

	The Group	
HK$ million	**2005**	2004
Salaries and other short-term employee benefits	**7**	10
Bonuses	**3**	4
Post-employment benefits	**1**	1
	11	15
Share-based compensation accounting adjustment (note (i))	**—**	—
	11	15

(i) Share-based compensation accounting adjustment involves calculation of the fair value of share options granted to certain directors under PCCW's share option scheme using trinomial option pricing model. The figures shown in the above table do not represent realisable gains which are affected by a combination of a number of factors, including, performance of PCCW's share price, vesting period, timing of exercise etc.

(ii) For executive directors employed by PCCW, their remunerations are borne by PCCW. In addition, the Company paid a bonus to Hubert Chak in 2005. Accordingly, the 2004 comparative figures are revised to exclude those executive directors employed by PCCW and their remunerations were borne by PCCW.

December 31, 2005 (Amount expressed in Hong Kong dollars unless otherwise stated)

9. FIVE TOP-PAID EMPLOYEES – CONTINUED

b. The emoluments of the remaining two individuals (2004: four) are within the emolument ranges as set out below:

	The Group Number of individuals	
	2005	2004
HK$2,800,001 - HK$2,900,000	—	1
HK$2,900,001 - HK$3,000,000	—	1
HK$3,800,001 - HK$3,900,000	—	1
HK$5,100,001 - HK$5,200,000	**1**	—
HK$5,300,001 - HK$5,400,000	—	1
HK$5,700,001 - HK$5,800,000	**1**	—
	2	4

The employees, whose emoluments are disclosed above, include senior executives who were also directors of the subsidiaries during the year. No directors waived the right to receive emoluments during the years for 2005 and 2004.

10. TAXATION

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 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	
HK$ million	**2005**	2004 (restated) (notes 2(b) and 35)
Hong Kong profits tax		
– Provision for current year	**95**	79
– Over provision in respect of prior years	**(1)**	—
Deferred taxation relating to the origination and reversal of temporary differences (note 28)	**19**	(118)
Total	**113**	(39)

10. TAXATION – CONTINUED

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

	The Group	
HK$ million	**2005**	2004 (restated) (notes 2(b) and 35)
Profit before taxation	**710**	313
Calculated at 17.5%	**124**	55
Income not subject to taxation	**(40)**	(6)
Expenses not deductible for taxation purposes	**34**	23
Utilisation of tax losses not previously recognised	**(21)**	—
Tax losses not recognised	**—**	5
Over provision in respect of prior years	**(1)**	—
Effect of different tax rate of subsidiaries operating in mainland China	**17**	(37)
Reversal of deferred tax liability for investment properties to be recovered through sale	**—**	(79)
Taxation charge	**113**	(39)

11. DIVIDENDS

HK$ million	2005	2004
Interim dividend of 1.5 Hong Kong cents per ordinary share (2004: nil) paid	**36**	—
Final dividend proposed after the balance sheet date of 5.5 Hong Kong cents per ordinary share		
(2004: 7 Hong Kong cents per ordinary share)	**132**	168
	168	168

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

12. EARNINGS PER SHARE

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

	2005	2004 (restated) (notes 2(b) and 35)
Earnings (HK$ million)		
Earnings for the purpose of calculating the basic earnings per share	**597**	352
Finance costs on convertible notes	**126**	123
Earnings for the purpose of calculating the diluted earnings per share	**723**	475

12. EARNINGS PER SHARE – CONTINUED

	2005	2004
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating the basic earnings per share	**2,318,405,078**	1,739,977,769
Effect of dilutive potential ordinary shares on conversion of convertible notes and employee share option	**756,277,017**	769,083,182
Weighted average number of ordinary shares for the purpose of calculating the diluted earnings per share	**3,074,682,095**	2,509,060,951

13. INVESTMENT PROPERTIES

	The Group	
HK$ million	**2005**	2004
Beginning of year, as previously stated	**5,210**	5,733
– adoption of HKAS 40 (note 2(b)(ii))	**1,106**	864
Beginning of year, as restated	**6,316**	6,597
Disposal	**(2,800)**	—
Adjustment to cost of investment property	—	(63)
Surplus/(deficit) on revaluation of investment properties	**16**	(205)
Exchange translation gain/(loss)	**75**	(13)
End of year	**3,607**	6,316

13. INVESTMENT PROPERTIES – CONTINUED

Investment properties held in and outside Hong Kong were revalued as at December 31, 2005 by an independent valuer, CB Richard Ellis Limited. The basis of valuation for investment properties was open market value. The fair value gain during the year amounted to HK$16 million (2004: deficit of HK$205 million) was credited to the consolidated income statement under surplus/(deficit) on revaluation of investment properties.

In the consolidated income statement, cost of sales includes HK$21 million (2004: HK$54 million) direct operating expenses that generate rental income while there was no direct operating expenses relating to investment properties that were unlet.

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. 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 for 2005.

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

HK$ million	2005	2004
Held in Hong Kong		
On long lease (over 50 years)	—	2,800
On medium-term lease (10-50 years)	33	17
Held outside Hong Kong		
On long lease (over 50 years)	696	681
On medium-term lease (10-50 years)	2,878	2,818
	3,607	6,316

14. PROPERTY, PLANT AND EQUIPMENT

	The Group		
HK$ million	Property	Other plant and equipment	Total
Net book value at January 1, 2004			
– as previously stated	491	70	561
– adoption of HKAS 40 (note 2 (b)(ii))	(491)	(44)	(535)
Net book value at January 1, 2004, as restated (note a)	—	26	26
Additions	—	18	18
Disposals	—	(1)	(1)
Depreciation	—	(8)	(8)
Net book value at December 31, 2004	—	35	35
At December 31, 2004			
At cost	—	53	53
Accumulated depreciation	—	(18)	(18)
Net book value	—	35	35
Net book value at January 1, 2005			
– as previously stated	**798**	**80**	**878**
– adoption of HKAS 17 (note 2(b)(iv))	**(155)**	**—**	**(155)**
– adoption of HKAS 40 (note 2(b)(ii))	**(643)**	**(45)**	**(688)**
Net book value at January 1, 2005, as restated	**—**	**35**	**35**
Additions	**—**	**13**	**13**
Depreciation	**—**	**(11)**	**(11)**
Net book value at December 31, 2005	**—**	**37**	**37**
At December 31, 2005			
At cost	**—**	**67**	**67**
Accumulated depreciation	**—**	**(30)**	**(30)**
Net book value	**—**	**37**	**37**

14. PROPERTY, PLANT AND EQUIPMENT – CONTINUED

a. The analysis of net book value as at January 1, 2004 is as follows:

	The Group
HK$ million	Other plant and equipment
At cost	36
Accumulated depreciation	(10)
Net book value	26

15. PROPERTIES UNDER DEVELOPMENT/HELD FOR SALE

	The Group	
HK$ million	2005	2004
Properties under development	7,413	6,551
Less: Properties under development classified as non-current assets	(1,875)	(6,082)
	5,538	469
Properties held for sale	131	—
Properties under development/held for sale	5,669	469

a. Pursuant to an agreement dated May 17, 2000 entered into with the Government of the 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.

16. INTEREST IN LEASEHOLD LAND

The Group's interests in leasehold land represent prepaid operating lease payments and their net book value is analysed as follows:

	The Group	
HK$ million	**2005**	2004
Lease in Hong Kong held over 50 years:		
Beginning of year	**155**	—
Transfer to properties under development	**(155)**	—
Reclassification of leasehold land (note 2(b)(iv))	**—**	155
End of year	**—**	155

The leasehold land transferred to properties under development during the year remains subject to amortisation over the period of the lease on the straight-line basis. The amount of amortisation charge of the leasehold land has been capitalised as part of the cost of properties under development. As at December 31, 2005, the net book value of leasehold land included in properties under development was approximately HK$155 million.

17. GOODWILL

HK$ million	The Group 2005	2004
Cost		
Beginning of year	**84**	—
Elimination of accumulated amortisation (note a)	**(3)**	—
Additions	**—**	84
End of year	**81**	84
Accumulated amortisation		
Beginning of year (note a)	**(3)**	—
Elimination against cost of goodwill (note a)	**3**	—
Charge for the year	**—**	(3)
End of year	**—**	(3)
Net Book Value		
End of year	**81**	81
Beginning of year	**81**	—

a. From January 1, 2005 onwards, the Group ceased amortisation of goodwill and the accumulated amortisation as at December 31, 2004 was eliminated with a corresponding decrease in the cost of goodwill (see note 2(j)).

18. INVESTMENT IN SUBSIDIARIES

	The Company	
HK$ million	**2005**	2004
Unlisted shares, at cost	**2,870**	2,870

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 which are prepared using accounting principles generally accepted in the People's Republic of China. Such profits are different from the amounts reported under HKFRS.

As at December 31, 2005, 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$199 million (2004: 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 mainland China may be restricted.

The borrowings by an indirect wholly-owned subsidiary from the Company bearing interest at commercial rates throughout the terms of the borrowings were repaid during the year of 2005. The interest bearing principal receivable from the subsidiary as at December 31, 2004 was HK$2,359 million. Other balances with subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment. The amounts due from subsidiaries as at December 31, 2005 were HK$4,039 million (2004: HK$4,043 million).

18. INVESTMENT IN SUBSIDIARIES – CONTINUED

As at December 31, 2005, particulars of the principal 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 project 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	Hong Kong	Property management	HK$2	—	100%
Madeline Investments Limited 盈科大衍地產發展有限公司 (formerly known as Madeline Investments Limited)	Hong Kong	Trademark registrant	HK$2	—	100%
Midgre Properties Limited	British Virgin Islands	Investment holding	US$2	—	100%
PCPD Services Limited	Hong Kong	Provision of management services	HK$2	—	100%

December 31, 2005 (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	British Virgin Islands	Provision of management services	US$2	—	100%
PCPD 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/ Hong Kong	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%
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%

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
Partner Link Investments Limited	British Virgin Islands/ Hong Kong	Property investment	US$1	—	100%
PCPD 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	British Virgin Islands/ Hong Kong	Corporate services	US$1	—	100%
PCPD Corporate Services Limited	Hong Kong	Corporate services	HK$1	—	100%
Pacific Century Paramount Real Estate Company Limited	Hong Kong	Estate agency	HK$1	—	100%
PCPD Wealth Limited (formerly known as 盈科宏建置業有限公司)	Hong Kong	Investment holding	HK$1	—	100%

19. INVESTMENT IN UNCONSOLIDATED SUBSIDIARIES HELD FOR SALE

	The Group		The Company	
HK$ million	**2005**	2004	**2005**	2004
Unlisted shares, at cost	**55**	80	**—**	287
Less: Provision for impairment in value	**(10)**	(4)	**—**	(287)
	45	76	**—**	—
Less: Reclassification to goodwill due to fair value adjustment of the asset acquired	**—**	(25)	**—**	—
	45	51	**—**	—

In respect of certain subsidiaries of the Company acquired and held exclusively with a view to resale, the investment in those subsidiaries of the Company is accounted for as investment in unconsolidated subsidiaries held for sale and stated at the lower of carrying amount and fair value less costs to sell, of approximately HK$45 million as at December 31, 2005 (2004: HK$51 million). The results of these unconsolidated subsidiaries were excluded from the consolidated income statement except that the Group has recorded impairment provision of HK$6 million (2004: HK$4 million) in the current year.

The formal conditional agreement with See Hup Seng Limited, 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, disclosed in note 3 to the 2004 Financial Statements, expired during the year. A second buyer has been solicited with the same consideration of HK$80 million in cash, payable by instalments in 2006.

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. These amounts will be transferred to specific bank accounts, which are restricted in use, 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$1,332 million as at December 31, 2005 (2004: HK$903 million) held in specific bank accounts. The uses of the funds are specified in the Cyberport Project Agreement. As at December 31, 2005, there was no deposit (2004: HK$1 million) used to secure a banking facility (see note 32).

c. Accounts receivable, net

An aging analysis of accounts receivable is set out below:

	The Group	
HK$ million	**2005**	2004
Current	**172**	88
One to three months	**64**	3
More than three months	**3**	1
	239	92

The normal credit period granted by the Group ranges up to 30 days from the date of the invoice unless there is separate mutual agreement on extension of the credit period.

20. CURRENT ASSETS AND LIABILITIES – CONTINUED

d. Accounts payable

An aging analysis of accounts payable is set out below:

	The Group	
HK$ million	**2005**	2004
Current	**181**	136
One to three months	**5**	—
More than three months	**—**	—
	186	136

e. Gross amounts due to customers for contract works

	The Group	
HK$ million	**2005**	2004
Contract costs incurred plus attributable profits less foreseeable losses	**784**	794
Less: Estimated value of work performed	**(795)**	(799)
	(11)	(5)

The total amount of progress billings, included in the estimated value of work performed as at December 31, 2005, was approximately HK$782 million (2004: HK$782 million).

21. LONG-TERM BORROWINGS

	The Group and the Company		
	2005		
HK$ million	Long-term borrowings	Convertible notes reserve	Total
Balance at December 31, 2004, as previously stated	3,621	—	3,621
Adoption of HKAS 32 (note 2(b)(vi))	(1,075)	1,160	85
Balance at December 31, 2004, as restated	2,546	1,160	3,706
Adoption of HKAS 39 (note 2(b)(vi))	(30)	—	(30)
Balance at January 1, 2005, as restated	2,516	1,160	3,676
Finance costs charged to consolidated income statement (note 6)	127	—	127
Reduction in balances as a result of the Conversion (note a)	(816)	(391)	(1,207)
Interest paid	(12)	—	(12)
	1,815	769	2,584
Interest amount payable included in current liabilities	(12)	—	(12)
Balance at December 31, 2005	1,803	769	2,572
Less: Amount classified as current liabilities	(24)	—	(24)
	1,779	769	2,548

21. LONG-TERM BORROWINGS – CONTINUED

	The Group and the Company 2004 (restated) (notes 2(b) and 35)		
HK$ million	Long-term borrowings	Convertible notes reserve	Total
Balance at January 1, 2004	—	—	—
Convertible notes issued	2,430	1,160	3,590
Finance costs charged to consolidated income statement (note 6)	133	—	133
Interest paid	(17)	—	(17)
Balance at December 31, 2004	2,546	1,160	3,706
Less: Amount classified as current liabilities	(24)	—	(24)
	2,522	1,160	3,682

21. LONG-TERM BORROWINGS – CONTINUED

a. Long-term borrowings comprise the outstanding principal amount of the convertible notes or any part that 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 (the "Conversion"). The Company issued 520,000,000 ordinary shares to a wholly-owned subsidiary of PCCW as a result of the Conversion and increased its issued equity by HK$52 million. 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.

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 a conversion price of 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.

Interest expense on the convertible notes is calculated using the effective interest method by applying the effective interest rate of 6.87% to the liability component.

22. PROVISIONS

	The Group		
	2005		
HK$ million	Payment to the Government (note a)	Others	Total
Beginning of year	6,380	31	6,411
Additional provisions included in properties under development	1,648	—	1,648
Additional provisions made	—	12	12
Provisions settled	(1,323)	(14)	(1,337)
End of year	6,705	29	6,734
Less: Amount classified as current liabilities	(5,270)	(29)	(5,299)
	1,435	—	1,435

22. PROVISIONS – CONTINUED

	The Group		
	2004		
HK$ million	Payment to the Government (note a)	Others	Total
Beginning of year	3,680	20	3,700
Additional provisions included in 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

a. Pursuant to the Cyberport Project Agreement (note 15(a)), the Government of the HKSAR 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 in 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	**Issued equity**
		HK$ million
	(note a)	**(note a)**
Ordinary shares of HK$0.40 each at April 1, 2004 (note b (ii))	1,161,265,406	—
Capital Reduction and Share Consolidation (note b (iii)(a) and (b))	(1,045,138,866)	—
	116,126,540	—
Issue of new shares on acquisition of the property group from PCCW	1,648,333,333	3,176
Issue of new shares of HK$0.10 each, net of issuing expenses (note b (iv))	118,000,000	248
Ordinary shares of HK$0.10 each at December 31, 2004	1,882,459,873	3,424
Issue of new shares for the Conversion of convertible note tranche A (note b (i))	520,000,000	1,207
At December 31, 2005	**2,402,459,873**	**4,631**

a. Due to the use of reverse acquisition basis of accounting (as stated in note 2(d) to the 2004 Financial Statements), 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, at date of completion of the reverse acquisition plus equity changes attributable to the Group after the reverse acquisition. The equity structure (i.e. the number and type of shares) reflects the equity structure of the legal parent, Pacific Century Premium Developments Limited for all accounting periods presented.

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$0.10 each at December 31, 2005	**10,000,000,000**	**1,000**
Ordinary shares of HK$0.40 each at April 1, 2004 (note (ii))	1,500,000,000	600
Cancellation of un-issued share capital (note (iii)(a))	(338,734,594)	(135)
Capital Reduction and Share Consolidation (note (iii)(a) and (b))	(1,045,138,866)	(453)
	116,126,540	12
Creation of additional authorised shares (note (iii)(e))	9,883,873,460	988
Ordinary shares of HK$0.10 each at December 31, 2004	10,000,000,000	1,000

23. ISSUED EQUITY – CONTINUED

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

	The Company	
	Number of shares	Nominal value
		HK$ million
Issued and fully paid:		
Ordinary shares of HK$0.40 each at April 1, 2004 (note (ii))	1,161,265,406	465
Capital Reduction and Share Consolidation (note (iii)(a) and (b))	(1,045,138,866)	(453)
	116,126,540	12
Issue of new shares on acquisition of the property group from PCCW	1,648,333,333	164
Issue of new shares of HK$0.10 each (note (iv))	118,000,000	12
Ordinary shares of HK$0.10 each at December 31, 2004	**1,882,459,873**	**188**
Issue of new shares for the Conversion of convertible note tranche A (note (i))	**520,000,000**	**52**
At December 31, 2005	**2,402,459,873**	**240**

(i) 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"). The Company issued 520,000,000 ordinary shares to a wholly-owned subsidiary of PCCW as a result of the Conversion and increased its issued equity by HK$52 million. 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.

(ii) In 2004, the Company changed its financial year end date from March 31 to December 31. The audited financial statements of the Company for 2004 covered a nine-month period from April 1, 2004 to December 31, 2004 and accordingly, the movement of share capital of the Company for the 2004 comparative period has also been prepared to cover the nine-month period from April 1, 2004 to December 31, 2004.

23. ISSUED EQUITY – CONTINUED

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

(iii) 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 un-issued share ("Capital Reduction") resulting in cancellation of 338,734,594 un-issued 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.

(iv) On November 10, 2004, the Company issued 118,000,000 new shares at HK$2.18 each to Asian Motion Limited 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 retirement schemes. The scheme assets are administered by independent trustees and are maintained independently.

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

On October 31, 2005, all the benefits of active members in respect of service before July 1, 2003 (i.e. the date on which all active members of the DB Schemes were transferred to defined contribution retirement schemes operated by PCCW for future services, with their benefits prior to that date remained unchanged) were transferred to defined contribution retirement schemes operated by PCCW ("Transfer of past DB benefits") effective November 1, 2005. The transfer value of each member was calculated to be the leaving service benefits as at October 31, 2005, plus enhancement, if any. Enhancement is 50% of the increase in vested benefit based on vesting service up to January 31, 2006. After the Transfer of past DB benefits, the DB Schemes no longer have defined benefit obligation attributed to the active members. This Transfer of past DB benefits was considered as a curtailment and settlement event under HKAS 19. The Group has injected approximately HK$1 million to the DB Schemes to make up part of the funding deficit as at October 31, 2005.

The latest independent actuarial valuation of the DB Schemes, in accordance with HKAS 19, was carried out on December 31, 2005 and was prepared by Mr Aaron Wong of Watson Wyatt Hong Kong Limited, fellow of the Canadian Institute of Actuaries and also fellow of 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 92.5 percent (2004: 92.6 percent) of the present value of the defined benefit obligations as at December 31, 2005.

The defined benefit pension expense recognised in the income statement for the year ended December 31, 2005 was approximately HK$0.6 million (2004: HK$0.4 million). As at December 31, 2005, the defined benefit liability of HK$5 million was recorded as amounts due to fellow subsidiaries for settlement of the liability while as at December 31, 2004, the defined benefit liability of HK$5 million was recorded in other long-term liabilities.

24. EMPLOYEE RETIREMENT BENEFITS – CONTINUED

b. Defined contribution retirement scheme

Employees of the Group are also entitled to join the defined contribution retirement 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 retirement 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

Share option scheme

In order to align the terms of the share option scheme of the Company with those of PCCW and in view of the limited number of shares capable of being issued relative to the current capital base of the Company, under the 2003 share option scheme, which was approved and adopted on March 17, 2003 and was valid for 10 years after the date of adoption, the shareholders of the Company approved the termination of the 2003 share option scheme and adoption of a new share option scheme (the "2005 Scheme") at the Company's annual general meeting held on May 13, 2005. The 2005 Scheme became effective on May 23, 2005 following its approval by the shareholders of PCCW. No further share options will be granted under the 2003 share option scheme following its termination, but the provisions of such scheme will remain in full force and effect with respect to the options granted (see note (ii) below) prior to its termination.

December 31, 2005 (Amount expressed in Hong Kong dollars unless otherwise stated)

25. EQUITY COMPENSATION BENEFITS – CONTINUED

Share option scheme – Continued

Under the 2005 Scheme, the board of directors of the Company may, at its discretion, grant share options to any eligible person to subscribe for shares in the Company subject to the terms and conditions stipulated in the 2005 Scheme. The exercise price of the options under the 2005 Scheme is determined by the board of directors of the Company in its absolute discretion but in any event shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotations sheet of the Stock Exchange on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheet of the Stock Exchange for the five days last preceding the date of grant on which days it has been possible to trade shares on the Stock Exchange; and (iii) the nominal value of the share of the Company on the date of grant. The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2005 Scheme and any other share option schemes of the Company must not exceed 30% of the shares in issue from time to time. In addition, the maximum number of shares in respect of which options may be granted under the 2005 Scheme shall not (when aggregated with any shares subject to any grants made after May 23, 2005 pursuant to any other share option schemes of the Company) exceed 10% of the issued share capital of the Company on May 23, 2005 (or some other date if renewal of this limit is approved by shareholders).

Details of share options granted by the Company pursuant to the 2003 share option scheme and the share options outstanding at December 31, 2005, are as follows:

(i) Movements in share options

	Number of options	
	2005	2004
Beginning of year	**10,000,000**	—
Issued (note (ii))	—	10,000,000
End of year (note (ii))	**10,000,000**	10,000,000
Options vested as at end of year	**10,000,000**	10,000,000

25. EQUITY COMPENSATION BENEFITS – CONTINUED

Share option scheme – Continued

(ii) Details of share options outstanding as at December 31,

			2005		2004	
Date of grant	Exercise period	Exercise price HK$	**Consideration received HK$**	**Number of options**	Consideration received HK$	Number of options
December 20, 2004	December 20, 2004 to December 19, 2014	2.375	**2**	**10,000,000**	2	10,000,000
			2	**10,000,000**	2	10,000,000

During the year ended December 31, 2005, no share options were granted under the 2005 Scheme or 2003 share option scheme. All of the share options granted related to 2003 share option scheme remained unexpired and unexercised as at December 31, 2005.

December 31, 2005 (Amount expressed in Hong Kong dollars unless otherwise stated)

25. EQUITY COMPENSATION BENEFITS – CONTINUED

Share option scheme – Continued

(iii) Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2005		2004	
	Average exercise price in HK$ per share	**Number of options**	Average exercise price in HK$ per share	Number of options
Beginning of year	**2.375**	**10,000,000**	—	—
Granted	**—**	**—**	2.375	10,000,000
End of year	**2.375**	**10,000,000**	2.375	10,000,000

All the share options outstanding at the end of the year will expire on December 19, 2014.

The total fair value of the share options granted in December 2004 under 2003 share option scheme determined using the trinomial option pricing model was HK$12.9 million using share price of HK$2.325, exercise price of HK$2.375, risk-free interest rate of 3.95 percent, volatility of 0.50 with expected life for 10 years and no expected dividend per share. As the share options were vested before January 1, 2005, there was no expenses charged to the consolidated income statement (see note 2(b)(vii)).

26. RESERVES

HK$ million	Share premium	Capital redemption reserve	Convertible notes reserve	Contributed surplus	Employee share-based compensation reserve	Accumulated loss	Total
	The Company						
	2005						
Balance at December 31, 2004, as previously stated	3,038	1	—	393	—	(142)	3,290
Effect of changes in accounting policies (note 2(b)):							
– Increase in employee expenses under share option scheme on adoption of HKFRS 2	—	—	—	—	10	—	10
– Equity arising from issue of convertible notes on adoption of HKAS 32	—	—	1,160	—	—	(85)	1,075
Balance at December 31, 2004, as restated	3,038	1	1,160	393	10	(227)	4,375
Opening adjustment on adoption of HKAS 39 (note 2(b)(vi))	—	—	—	—	—	30	30
Balance at January 1, 2005, as restated	3,038	1	1,160	393	10	(197)	4,405
Loss for 2005	—	—	—	—	—	(125)	(125)
Total recognised loss for 2005	—	—	—	—	—	(125)	(125)
Issue of ordinary shares upon conversion of convertible note	1,155	—	(391)	—	—	—	764
Value of employee services under employee share option scheme	—	—	—	—	5	—	5
2004 final dividend paid	—	—	—	(168)	—	—	(168)
2005 interim dividend paid	—	—	—	(36)	—	—	(36)
Balance at December 31, 2005	4,193	1	769	189	15	(322)	4,845

26. RESERVES – CONTINUED

The Company
2004
(restated)

HK$ million	Share premium	Capital redemption reserve	Convertible notes reserve	Contributed surplus	Employee share-based compensation reserve	Accumulated losses	Total
Balance at April 1, 2004	47	1	—	393	—	(648)	(207)
Loss for the period	—	—	—	—	—	(79)	(79)
Total recognised loss for the period	—	—	—	—	—	(79)	(79)
Capital reduction and share consolidation	—	—	—	453	—	—	453
Share premium cancellation	(47)	—	—	47	—	—	—
Offset contributed surplus with accumulated losses	—	—	—	(500)	—	500	—
Issue of ordinary shares, net of issuing expenses	3,038	—	—	—	—	—	3,038
Value of employee services under employee share option scheme	—	—	—	—	10	—	10
Equity arising from issue of convertible notes	—	—	1,160	—	—	—	1,160
Balance at December 31, 2004	3,038	1	1,160	393	10	(227)	4,375

27. EMPLOYEE SHARE-BASED COMPENSATION RESERVE

HK$ million	The Group 2005	2004
At January 1, as previously stated	—	—
Adoption of HKFRS 2 (note 2(b)(vii))	**10**	3
At January 1, as restated	**10**	3
Employee share option benefits	5	7
At December 31,	**15**	10

The share options are granted to the directors and employees of the Group to subscribe for shares in PCCW or the Company in accordance with the terms and conditions of the share option scheme (see note 2(t)(iii)).

28. DEFERRED TAXATION

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

	The Group				
	2005				
HK$ million	Accelerated tax depreciation	Revaluation of properties	Tax loss	Others	Total
At December 31, 2004, as previously stated	186	153	—	9	348
Decrease in deferred tax arising from the revaluation of investment properties after adoption of HKAS 40 & HKAS-Int 21 (note 2(b))	—	(88)	—	—	(88)
At December 31, 2004, as restated	186	65	—	9	260
Charged/(credited) to consolidated income statement (note 10)	48	3	(11)	(21)	19
Reclassification of deferred tax assets previously provided	(41)	75	—	—	34
Translation exchange difference	3	3	—	—	6
At December 31, 2005	196	146	(11)	(12)	319

28. DEFERRED TAXATION – CONTINUED

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

	The Group			
	2004			
HK$ million	Accelerated tax depreciation	Revaluation of properties	Others	Total
At January 1, 2004, as previously stated	153	344	9	506
Decrease in deferred tax arising from the revaluation of investment properties after adoption of HKAS-Int 21 (note 2(b))	—	(110)	—	(110)
At January 1, 2004, as restated	153	234	9	396
Charged/(credited) to consolidated income statement (note 10)	33	(169)	—	(136)
At December 31, 2004	186	65	9	260

28. DEFERRED TAXATION – CONTINUED

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

	The Group	
HK$ million	**2005**	2004 (restated) (notes 2(b) and 35)
Deferred tax liabilities recognised in the consolidated balance sheet	**344**	260
Less: Amount set off by deferred tax assets in the consolidated balance sheet	**(25)**	—
End of year	**319**	260

b. Deferred tax assets are recognised for tax losses 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	
HK$ million	**2005**	2004
Beginning of year	**2**	20
Reversed to consolidated income statement (note 10)	**—**	(18)
End of year	**2**	2

c. The Group has unutilised estimated tax losses of HK$71 million as at December 31, 2005 (2004: HK$248 million) to be carried forward for deduction against future taxable profits. The tax losses are mainly relating to Hong Kong companies which can be carried forward indefinitely while at the end of 2004, approximately HK$113 million out of total estimated tax losses of HK$248 million, would be expired within 4 years from December 31, 2004.

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

a. Reconciliation of profit before taxation to net cash inflow from operating activities

	The Group	
HK$ million	**2005**	2004 (restated) (notes 2(b) and 35)
Profit before taxation	**710**	313
Adjustment for:		
Interest income	**(222)**	(8)
Finance costs	**127**	172
Gain on disposal of investment property	**(8)**	—
Depreciation	**11**	8
Provision for impairment of investment in unconsolidated subsidiaries held for sale	**6**	4
Provision for doubtful debts	**7**	—
Amortisation of goodwill	**—**	3
Value of services obtained from directors and employees under share option scheme	**5**	7
Provision for rental guarantee	**41**	—
(Surplus)/deficit on revaluation of investment properties	**(16)**	205
Operating profit before changes in working capital	**661**	704
Decrease/(increase) in operating assets:		
– properties under development/held for sale	**(838)**	(2,496)
– accounts receivable	**(147)**	(70)
– prepayments, deposits and other current assets	**(16)**	87
– sales proceeds held in stakeholders' accounts	**125**	(2,016)
– restricted cash	**(428)**	1,797
– amounts due from fellow subsidiaries	**2**	(12)
– amounts due from other related companies	**5**	(7)
– other non-current assets	**—**	8

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT – CONTINUED

a. Reconciliation of profit before taxation to net cash inflow from operating activities – Continued

	The Group	
HK$ million	**2005**	2004 (restated) (notes 2(b) and 35)
Increase/(decrease) in operating liabilities:		
– accounts payable, accruals, other payables, deferred income and provisions	**452**	3,020
– deposits received on sales of properties	**822**	—
– gross amounts due to customers for contract work	**6**	5
– amount due to ultimate holding company	**(727)**	438
– amounts due to fellow subsidiaries	**2**	10
– amounts due to other related companies	**—**	(5)
– other long-term liabilities	**(46)**	49
Cash (Used In)/Generated from Operations	**(127)**	1,512
Interest paid	**(28)**	(34)
Interest received	**198**	8
Tax paid		
– Hong Kong profits tax paid	**(2)**	(2)
– Overseas tax paid	**(1)**	—
Net Cash Inflow from Operating Activities	**40**	1,484

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT – CONTINUED

b. Acquisition of subsidiaries

	The Group	
HK$ million	**2005**	2004
Net assets acquired:		
Investment in unconsolidated subsidiaries held for sale	—	55
Other receivables (note (i))	—	70
	—	125
Goodwill arising on acquisition (note 17)	—	84
	—	209
Satisfied by:		
Issued equity	—	209
Analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries:		
Cash paid	—	—
Cash acquired	—	—
Cash and cash equivalents acquired in respect of acquisition of subsidiaries	—	—

(i) During the year ended December 31, 2005, the Group has collected HK$13 million (2004: HK$50 million) in respect of the balance of other receivables arising from the acquisition.

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT – CONTINUED

c. Analysis of cash and cash equivalents

	The Group	
HK$ million	2005	2004
Cash and bank balances	4,686	1,922
Less: Short-term deposits	(655)	—
Less: Restricted cash	(1,332)	(904)
Cash and cash equivalents as at December 31,	2,699	1,018

30. COMMITMENTS

a. Capital

	The Group	
HK$ million	2005	2004
Authorised and contracted for	2,120	1,858
Authorised but not contracted for	772	2,237
	2,892	4,095

30. COMMITMENTS – CONTINUED

a. Capital – Continued

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

	The Group	
HK$ million	**2005**	2004
Property development (note (i))	**2,876**	4,000
Acquisition of fixed assets	**14**	7
Investment properties	**—**	85
Others	**2**	3
	2,892	4,095

(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.

b. Operating leases

(i) As at December 31, 2005, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

Land and buildings

	The Group	
HK$ million	**2005**	2004
Within 1 year	**6**	4
After 1 year but within 5 years	**2**	—
	8	4

30. COMMITMENTS – CONTINUED

b. Operating leases – Continued

(i) As at December 31, 2005, the total future minimum lease payments under non-cancellable operating leases were payable as follows: - Continued

Equipment

	The Group	
HK$ million	**2005**	2004
Within 1 year	**7**	5
After 1 year but within 5 years	**1**	6
	8	11

(ii) As at December 31, 2005, the total future minimum lease receipts under non-cancellable operating leases were receivable as follows:

Land and buildings

	The Group	
HK$ million	**2005**	2004
Within 1 year	**196**	193
After 1 year but within 5 years	**332**	338
After 5 years	**45**	96
	573	627

Comparative figure of 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 stated in note 13.

31. CONTINGENT LIABILITIES

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

	The Group		The Company	
HK$ million	**2005**	2004	**2005**	2004
Performance guarantee	**1**	1	**—**	—
Corporate guarantee (note (i))	**—**	92	**—**	92
	1	93	**—**	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. Such guarantees have been released during the year ended December 31, 2005.

(ii) Under the Property Sales and Purchase Agreement (see note 13), 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 a guaranteed net monthly rental of approximately HK$13.3 million to the Purchaser 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. During the period from February 8, 2005 to December 31, 2005, the Group recorded a net loss of approximately HK$28 million, representing the net cash outflow under the rental guarantee. The Group has also made a provision of approximately HK$41 million in relation to the rental guarantee over the remaining term of the guarantee period. These amounts have been included in "Other loss" in the consolidated income statement.

32. BANKING FACILITY

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. Aggregate banking facility as at December 31, 2005 was HK$20 million (2004: HK$20 million) of which HK$20 million (2004: HK$19 million) was unused.

33. MATERIAL RELATED PARTY TRANSACTIONS

The Group is controlled by PCCW, a company 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 year, the Group had the following significant transactions with related companies:

	The Group	
HK$ million	**2005**	2004
Sales of services:		
– Fellow subsidiaries		
Facility management services	**47**	45
Office leases rental	**14**	62
– Other related companies		
Facility management services	**23**	21
Purchases of fixed assets:		
– Fellow subsidiary		
Purchase of interest in leasehold land	**—**	158
Purchase of fixed assets	**—**	1
Purchases of services:		
– Fellow subsidiaries		
Corporate services	**10**	23
Office sub-licences	**10**	8
Information technology and other logistic services	**27**	70

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.

The related party transactions in respect of item above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Stock Exchange's listing rules.

33. MATERIAL RELATED PARTY TRANSACTIONS – CONTINUED

b. Details of key management compensation of the Group

	The Group	
HK$ million	**2005**	2004 (note (ii))
Salaries and other short-term employee benefits	**17**	16
Bonuses	**16**	11
Directors' fee	**1**	—
Post-employment benefits	**1**	1
	35	28
Share-based compensation accounting adjustment (note (i))	**4**	4
	39	32

(i) Share-based compensation accounting adjustment involves calculation of the fair value of share options granted to certain directors under PCCW's share option scheme using trinomial option pricing model. The figures shown in the above table do not represent realisable gains which are affected by a combination of a number of factors, including, performance of PCCW's share price, vesting period, timing of exercise etc.

(ii) For executive directors employed by PCCW Limited, the ultimate holding company of the Group, their remunerations are borne by PCCW. In addition, the Company paid a bonus to Hubert Chak in 2005. Accordingly, the 2004 comparative figures are revised to exclude those executive directors employed by PCCW and whose remunerations were borne by PCCW.

33. MATERIAL RELATED PARTY TRANSACTIONS – CONTINUED

c. Year-end balances arising from sales/purchases of fixed assets/services and loan interest

	The Group	
HK$ million	**2005**	2004
Receivables from related parties:		
– Fellow subsidiaries	**10**	12
– Other related companies	**2**	7
	12	19
Payables to related parties:		
– Ultimate holding company	**—**	16
– Fellow subsidiaries	**24**	10
	24	26

d. Loans from/amount due to related parties

The balance due to ultimate holding company as at December 31, 2005 and 2004 represents the aggregated amount of the face value of the following:

(i) The convertible note (tranche B note due 2014) with face value of HK$2,420 million was novated to a fellow subsidiary together with the provision for redemption premium of HK$79 million (December 31, 2004: HK$31 million) during 2005 and there was no outstanding balance as at December 31, 2005 (December 31, 2004: HK$2,420 million);

(ii) The convertible note (tranche A note due 2011) was converted into shares during the year (see note 21(a)) and there was no outstanding balance as at December 31, 2005 (December 31, 2004: HK$1,170 million); and

33. MATERIAL RELATED PARTY TRANSACTIONS – CONTINUED

d. Loans from/amount due to related parties – Continued

(iii) Amount due to ultimate holding company of HK$3,180 million (December 31, 2004: HK$3,907 million)

	The Group	
HK$ million	2005	2004
Loans from / amount due to ultimate holding company:		
Beginning of year	7,528	4,862
Issue of convertible notes	—	3,590
Loans advanced	—	1,170
Repayment of amount due to ultimate holding company	(727)	(596)
Conversion of convertible note	(1,170)	—
Repayment of loans	—	(1,529)
Interest expensed	24	17
Interest amount payable included in current liabilities	(12)	(17)
Interest paid	(12)	—
Provision for redemption premium	48	31
Convertible note (tranche B note) assigned to a fellow subsidiary (note a)	(2,499)	—
End of year	3,180	7,528

The balance due to ultimate holding company as at December 31, 2005 represents the amount due to the ultimate holding company at interest free and is recorded under the current liabilities in the consolidated balance sheet.

33. MATERIAL RELATED PARTY TRANSACTIONS – CONTINUED

d. Loans from/amount due to related parties – Continued

(iii) Amount due to ultimate holding company of HK$3,180 million (December 31, 2004: HK$3,907 million) – Continued

	The Group	
HK$ million	**2005**	2004
Loans from fellow subsidiaries:		
Beginning of year	—	2,000
Interest expensed	—	25
Repayment of loans and interest	—	(2,025)
Assignment of convertible note (tranche B note) to a fellow subsidiary	**2,499**	—
End of year	**2,499**	—

a. 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$79 million (December 31, 2004: HK$31 million) was assigned, as directed by PCCW, to a wholly-owned subsidiary of PCCW during the year (note 21(a)).

34. FINANCIAL RISK MANAGEMENT

The Group's investment policy is to prudently invest all surplus funds managed by the Group in a manner which will satisfy liquidity requirements, safeguard financial assets, and manage risks while optimising return on investments.

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and equity price risk), credit risk, liquidity risk, fair value interest rate risk and cash flow interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's performance.

Risk management is carried out by a central treasury department ("Group Treasury") under policies approved by the board of directors. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's business units. The Board provides principle polices for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing excess liquidity.

a. Market risk

(i) Foreign exchange risk

The Group operates mainly in mainland China and Hong Kong and is exposed to foreign exchange risk arising from Renminbi currency exposures, primarily with respect to the HK dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The risk management policy is to have the liquid assets mainly denominated in HK dollars, US dollars and Renminbi.

The Group has operations in mainland China where the net assets are exposed to foreign currency translation risk. The Group's currency exposure with respect to these operations is mainly from Renminbi and HK dollars.

(ii) Equity and commodity price risk

The Group is not exposed to equity and commodity price risk.

34. FINANCIAL RISK MANAGEMENT – CONTINUED

b. Credit risk

The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay outstanding amounts in full when due. The Group has policies in place to ensure that the pre-sale of the properties and the sale of completed properties are both binding and enforceable. For the property investment and other business segments, the Group obtained rental deposits from the tenants while for other business, the customers are mainly the fellow subsidiaries and related parties which the credit risk is relatively low. For the property pre-sale, there is a certain degree of concentrations of credit risk but the Group, through the binding and enforceable pre-sale contracts, manage the concentration credit risk.

c. Liquidity risk

Due to the dynamic nature of the Group's underlying businesses, prudent liquidity risk management implies maintaining sufficient cash and cash equivalent to meet operational needs and possible investment opportunities.

d. Fair value and cash flow interest rate risks

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is not exposed to cash flow interest rate risks since the Group's long-term borrowings are fixed rate borrowings, which, however, will expose the Group to fair value interest-rate risk. The Group's policy is to maintain stable cash flows by entering into fixed interest rate borrowings.

35. COMPARATIVE FIGURES

a. The comparative figures have been restated as a result of the adoption of new HKFRSs by the Group. See note 2(b) for details of the changes which have been made to the comparatives as a result of the adoption of the new HKFRSs.

b. The comparative figures of amount due to ultimate holding company has been reclassified to current liabilities in order to conform with the current year's presentation based on the terms applicable to the outstanding balance.

c. Certain other comparative figures have been reclassified to conform with current year presentation.

36. APPROVAL OF FINANCIAL STATEMENTS

The financial statements set out on pages 56 to 155 were approved by the board of directors on March 29, 2006.