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CORPORATE PROFILE

Majority-owned by PCCW Limited (“PCCW”), Pacific Century Premium Developments Limited (“PCPD” or the “Group”, SEHK:0432) is principally engaged in the development and management of premium property and infrastructure projects, as well as investment in premium-grade buildings, in the Asia-Pacific region.

PROPERTY DEVELOPMENT AND INVESTMENT

PCPD holds the development rights for the Cyberport project, which is owned by the Government of the Hong Kong Special Administrative Region and includes the prestigious Bel-Air residential development.

PCPD also has right of first refusal to join with PCCW to redevelop the latter’s telephone exchange buildings into residential and/or commercial properties. While the Group continues to explore high-end development potential in Hong Kong, we are actively pursuing opportunities in the vast and thriving property market of mainland China.

PROPERTY AND FACILITIES MANAGEMENT

Further afield, PCPD continues to seek investment and development opportunities with growth potential in other parts of the Asia-Pacific region.

This division specialises in providing facilities management, property management, asset management and corporate services to the Group and external clients in Hong Kong and mainland China. Managing a portfolio of grade-A commercial, retail, industrial, mission-critical telephone exchange and luxury residential properties, this division holds significant potential to expand by capitalising on PCPD's wide-ranging experience and expertise.



STATEMENT FROM THE CHAIRMAN

The Bel-Air brand continues to symbolise a trendsetter in luxury residential development – an image that will be enhanced by the last two phases.



The Hong Kong economy shows every sign surging from strength to strength, offering encouragement to a property market that has maintained stability and signals a promising outlook, especially at the high end of the sector. The success of the Hong Kong stock market in providing a platform for fund-raising for mainland companies has laid a solid foundation for growth for all sectors of the economy.

Domestic demand has provided growth momentum and, coupled with firmer employment prospects, continues to play a central role in the economic upturn. In addition, strong economic fundamental has led to a greater investor confidence and improved local economic sentiment.

Unemployment in Hong Kong is the lowest in six years, with reports of a significant number of companies from mainland China, Taiwan and further afield establishing new operations or expanding existing facilities in Hong Kong that are expected to have a substantial positive impact on local job prospects in the near future.

In our home market, the Bel-Air brand continues to symbolise a trendsetter in luxury residential development – an image that will be enhanced by the last two phases. I am confident that our strong brand position will assist us as we continue to create other premium developments in the region.

As we work to develop our business at home and in other parts of the Asia-Pacific region, I would like to offer my gratitude to our directors, as well as our management team and workforce, for the productive roles they have played in PCPD's continuing success story. I would also like to thank our shareholders and partners for their support.

A handwritten signature in blue ink, consisting of a large, stylized 'R' followed by a smaller 'L' and a flourish.

Richard Li

Chairman

March 28, 2007

STATEMENT FROM THE CHIEF EXECUTIVE OFFICER



PCPD has been widely recognised for innovation in high-end residential accommodation and luxurious lifestyle facilities, and I am confident that the significant power of the Bel-Air brand will add prestige to all our property projects in Hong Kong and the Asia-Pacific region.

I am pleased to report that the Group's consolidated turnover for the year ended December 31, 2006 was approximately HK\$7,263 million, compared with HK\$5,127 million for 2005. Consolidated net profit for 2006 reached HK\$965 million, compared with the previous year's HK\$597 million. Basic earnings per share for the year were 40.16 Hong Kong cents, compared with 25.77 Hong Kong cents for 2005.

The board of directors has recommended a final dividend of 5.5 Hong Kong cents per share for the year ended December 31, 2006.

General economic conditions have continued to generate confidence in the Hong Kong property market. Banks pursued mortgage business growth aggressively last year by offering competitive rates, while strong liquidity in the financial market has strengthened the property market further.



PCPD has been widely recognised for innovation in high-end residential accommodation and luxurious lifestyle facilities, and I am confident that the significant power of the Bel-Air brand will add prestige to all our property projects in Hong Kong and the Asia-Pacific region.

Meanwhile, solid progress has been made on our first Hong Kong telephone exchange redevelopment project, which is on target to be completed by 2009, with the creation of about 150 high-quality boutique apartments in the Western District.

The Group's property and facilities management division continues to accumulate invaluable experience in the luxury residential accommodation sector, thanks to ongoing and specialised responsibilities at the Bel-Air development. This complements a solid foundation in the management of office, retail, industrial and mission-critical telecommunications properties and strengthens the division's ability to earn a steady stream of revenue.

STATEMENT FROM THE CHIEF EXECUTIVE OFFICER



Turning to our operations in mainland China, work has begun on an exciting project in Beijing's Chaoyang District, where we acquired a site for a luxurious residential development adjacent to our premium-grade investment property, Pacific Century Place. The development is scheduled for completion in 2009.

In addition, we continue to explore the potential in property development and redevelopment through ongoing co-operation between PCCW Limited and its alliance partner, China Network Communications Group Corporation.

As well as managing current projects and our day-to-day operations, the skills, experience and vision of our staff and management position the Group well in our mission to seek out opportunities in Hong Kong, mainland China and throughout the Asia-Pacific region.



A handwritten signature in black ink, appearing to read 'Robert Lee'.

Robert Lee

Chief Executive Officer

March 28, 2007





MANAGEMENT'S DISCUSSION AND ANALYSIS

A management's discussion and analysis of the audited consolidated financial results and operations relating to the business of Pacific Century Premium Developments Limited (the "Company") and its subsidiaries (the "Group") for the year ended December 31, 2006 follows below:

BUSINESS REVIEW

Property development

The Hong Kong economy's strong performance in the second half of 2006 underpinned favourable results from the Group. Better-than-expected prices fetched at land auctions conducted by the Government of the Hong Kong Special Administrative Region ("HKSAR") towards the end of 2006, along with robust local economic fundamentals, an end to successive interest rate hikes by the US Federal Reserve Board and solid regional stock market performances all generated positive sentiment among homebuyers and investors, leading to an increase in property sector investment.

The Group continued to increase sales revenue while optimising cost efficiencies, which resulted in solid returns for 2006 compared with those of the previous year. The Bel-Air project continues to be the Group's leading driver of success by spearheading the property sector in terms of architecture, design and service quality.

The Group recognised approximately HK\$7,263 million in revenue for 2006. Profit before taxation during the year was approximately HK\$1,160 million, compared with approximately HK\$710 million for 2005.

In 2006, three payments (consisting batch fourth to sixth) of net surplus proceeds for the Cyberport project, totalling HK\$5,600 million, was allocated between the Government of the HKSAR and the Group. The Government of the HKSAR received an aggregate amount of approximately HK\$3,615 million, in accordance with the Cyberport Project Agreement, while the Group retained approximately HK\$1,985 million.

Co-operation between PCCW and the Group to redevelop a number of telephone exchange buildings in Hong Kong has continued to make good progress. The Wo Fung Street project to build prestigious residential apartments in Sheung Wan will create approximately 150 upmarket units by 2009. Development work is currently on schedule and pre-sales are expected by the end of 2007.

Development work on the Group's prestigious residential project next to Pacific Century Place, located at No.4 Gong Ti Bei Lu, Chaoyang District, Beijing, will commence in 2007. The project has an approved gross floor area of approximately 46,300 square metres and is planned for completion in 2009. Project quality standards are expected to surpass those currently available in Beijing.

Property investment

The Group owns a premium-grade investment building, Pacific Century Place, in Beijing city centre. With a gross floor area of more than 169,900 square metres, this multiple-use development is currently home to many multinational corporations, world-class retailers and residential tenants. Demand for office and retail space is expected to increase, given mainland China's strengthening economy and the accelerating pace of corporate expansion. Pacific Century Place enjoyed an average occupancy rate of 95 per cent during 2006. A number of uplift works are scheduled completion by 2009.

The Group's gross rental income for 2006 amounted to approximately HK\$228 million, compared with approximately HK\$233 million for 2005.

Other businesses

Other businesses within the Group include the property management division, which provides property and facilities management, corporate services and asset management services. Revenue from the property management division for 2006 amounted to approximately HK\$82 million, compared with approximately HK\$73 million for 2005.

FINANCIAL REVIEW

Review of results

The Group recorded a consolidated turnover of approximately HK\$7,263 million for 2006, representing an increase of 41.7 per cent compared with approximately HK\$5,127 million for 2005. The increase in turnover was mainly due to revenue being recognised during the current year from sales of Bel-Air on the Peak as it reached completion.

The Group's consolidated gross profit for 2006 was approximately HK\$1,188 million, representing an increase of 28.3 per cent from a gross profit of approximately HK\$926 million for 2005. The increase was resulted from an improvement to the Group's turnover over the period.

The Group recorded consolidated net profit of approximately HK\$965 million for 2006, representing an increase of 61.6 per cent compared with approximately HK\$597 million for 2005. The increase was attributable to an increase in turnover and higher interest income. Basic earnings per share during the year were 40.16 Hong Kong cents compared with 25.77 Hong Kong cents for 2005.

In accordance with applicable Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, revenue and profits from the sale of property development are recognised upon the completion of the development and when significant risks and rewards of ownership have been transferred.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Current assets and liabilities

As at December 31, 2006, the Group held current assets of approximately HK\$8,940 million (December 31, 2005: HK\$15,034 million), mainly comprising properties under development/held for sale, cash and bank balances, sales proceeds held in stakeholders' accounts and restricted cash. The decrease in current assets was attributable to a reduction in properties under development/held for sale as properties completed and recognised as cost of sales. Properties under development/held for sale in current assets were decreased from approximately HK\$5,669 million as at December 31, 2005 to approximately HK\$1,521 million as at December 31, 2006. Cash and bank balances including short-term deposits amounted to approximately HK\$2,618 million as at December 31, 2006 (December 31, 2005: HK\$3,354 million). Sales proceeds held in stakeholders' accounts were decreased by 19.1 per cent from HK\$4,293 million as at December 31, 2005 to approximately HK\$3,472 million as at December

31, 2006. Restricted cash declined from HK\$1,332 million as at December 31, 2005 to approximately HK\$826 million as at December 31, 2006.

Total current liabilities as at December 31, 2006 amounted to approximately HK\$4,878 million, compared with HK\$11,320 million as at December 31, 2005. The reduction was mainly from net surplus proceeds distribution from the Cyberport project, which reduced the amount due to the ultimate holding company and the provisions made for the payment to the Government of the HKSAR.

Capital structure, liquidity and financial resources

As at December 31, 2006, total borrowings of the Group amounted to approximately HK\$3,743 million, representing a decrease of HK\$1,936 million compared with total borrowings of HK\$5,679 million as at December 31, 2005. As at December 31, 2006, all the

Group's long-term borrowings were from PCCW group. A portion of the borrowings, comprising approximately HK\$1,195 million, is interest free and is expected to be repaid from net surplus proceeds distributed from the Cyberport project, while the tranche B convertible notes with principal amount of HK\$2,420 million carries a fixed interest rate of one per cent per annum and is repayable at 120 per cent of the outstanding principal amount at maturity in 2014. As all borrowings are from the Company's majority shareholder, PCCW, gearing ratio is not provided.

As at December 31, 2006, the Group had a banking facility of approximately HK\$20 million for the purpose of providing a guarantee to the Government of the HKSAR in relation to the Cyberport project (December 31, 2005: HK\$20 million).

The majority of the Group's business transactions, assets and liabilities were denominated in Hong Kong dollars. Transactions, assets and liabilities relating to Pacific Century Place and the newly acquired residential site in Beijing, the People's Republic of China ("PRC"), were denominated in Renminbi. Renminbi-denominated revenue represented approximately 3.1 per cent of the Group's total revenue, while PRC assets represented approximately 29.4 per cent of the Group's total assets.

All the Group's borrowings were denominated in Hong Kong dollars. Cash and bank balances were held mainly in Hong Kong dollars, with the balance in Renminbi and US dollars. The Group has no significant exposure to foreign exchange fluctuation and has not adopted any material hedging measures.

The Group recorded a net cash outflow from operating activities for 2006 of approximately HK\$435 million, compared with a net cash inflow from operating activities of approximately HK\$40 million for 2005.

Taxation

Taxation for 2006 was approximately HK\$195 million compared with approximately HK\$113 million for 2005.

Contingent liabilities

As at December 31, 2006, the Group had an outstanding performance guarantee of approximately HK\$1 million granted to the Government of the HKSAR for certain entrustment works in relation to the Cyberport project (December 31, 2005: HK\$1 million).

EMPLOYEES AND REMUNERATION POLICIES

As at December 31, 2006, the Group employed approximately 386 staff, most of whom were based in Hong Kong. The Group's remuneration policies, which are in line with prevailing industry practices, have been formulated on the basis of performance and experience and are reviewed regularly. Bonuses are paid on a discretionary basis, according to individual performance and the Group's performance. The Group also provides comprehensive benefits including medical insurance, choice of provident fund or mandatory provident fund and training programmes.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company's share option scheme adopted on March 17, 2003 was terminated on May 13, 2005 and replaced by a new share option scheme, which was approved by shareholders on the same date. The new share option scheme was adopted on May 23, 2005, following approval from PCCW's shareholders. The new share option scheme is valid and effective for a period of 10 years from the date of adoption.

DIVIDENDS

The Board has recommended the payment of a final dividend of 5.5 Hong Kong cents (2005: 5.5 Hong Kong cents) per ordinary share or an aggregate amount of approximately HK\$132 million (2005: HK\$132 million) for 2006, subject to the approval of shareholders of the Company at the forthcoming annual general meeting, to shareholders whose names appear on the register of members of the Company on May 10, 2007, payable on or around May 23, 2007.

An interim dividend of 1.5 Hong Kong cents (2005: 1.5 Hong Kong cents) per ordinary share, totalling approximately HK\$36 million (2005: HK\$36 million), was paid to shareholders of the Company on October 13, 2006.

CLOSURE OF REGISTER OF MEMBERS

The Company's register of members will be closed from May 11, 2007 to May 16, 2007, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend of 5.5 Hong Kong cents per share, all transfers, accompanied by the relevant share certificates, should be lodged with the branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30p.m. on May 10, 2007. Dividend warrants will be despatched on or around May 23, 2007.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

OUTLOOK

The Group is optimistic that the property sector in Hong Kong will continue to thrive. Housing prices are expected to rise more rapidly this year, given sustained economic strengths both in Hong Kong and mainland China, rising income among homebuyers in a tightening labour market and a stable interest rate environment, as well as healthy gains made by investors in the region's robust stock markets since last year. This bodes well for the remaining phases of the Bel-Air residential complex in terms of sales volumes and achievable sales prices.

The Group will continue to explore opportunities in selected locations and harness the power of its brand identity in developing premium quality property projects. The Group will also continue to explore a number of PCCW-owned telephone exchange building redevelopment opportunities in Hong Kong to provide the Group with a sustainable source of long-term income. The first of these telephone exchange redevelopment projects is located at Wo Fung Street, Sheung Wan and is due for completion in 2009.

A series of macroeconomic control measures in 2006 from the PRC government to prevent the property sector from overheating are expected to result in longer lasting and healthier growth trends. These government measures will allow the Group to benefit in the long run. The Group's upmarket residential development project next

to Pacific Century Place in Beijing is expected to commence construction work in 2007 with a target completion date in 2009. The Group has also been planning value enhancement work in and around Pacific Century Place from 2007 to 2009. This will include better access to major transportation arteries and improving the quality of facilities and commercial mix. Meanwhile, the Group's alliance with China Network Communications Group Corporation to redevelop a number of telephone exchange properties will continue to identify a number of attractive sites for redevelopment in prime locations in mainland China.

Leveraging our presence in the sector as a premium property developer, we look forward to building our brand both in Hong Kong and mainland China.

BOARD OF DIRECTORS



LI Tzar Kai, Richard
Chairman



LEE Chi Hong, Robert
*Executive Director and
Chief Executive Officer*



Alexander Anthony ARENA
Executive Director



James CHAN
Executive Director



GAN Kim See, Wendy
Executive Director

EXECUTIVE DIRECTORS

LI Tzar Kai, Richard

Chairman

Aged 40, is chairman of Pacific Century Premium Developments Limited (“PCPD”) and chairman of PCPD’s Executive Committee. He is also chairman of PCCW Limited (“PCCW”), chairman of PCCW’s Executive Committee, chairman and chief executive of the Pacific Century Group and chairman of Singapore-based Pacific Century Regional Developments Limited. He became a director of PCPD in May 2004.

Mr Li is a non-executive director of The Bank of East Asia, Limited. He is a member of the Center for Strategic and International Studies’ International Councillors’ Group in Washington D.C., and a member of the Global Information Infrastructure Commission. He is also a Council Member of the Chinese University of Hong Kong.

LEE Chi Hong, Robert

Aged 55, is an executive director and the chief executive officer of PCPD and a member of PCPD’s Executive Committee. He joined PCCW in August 2002, and is an executive director of PCCW and a member of PCCW’s Executive Committee. He became a director of PCPD in May 2004.

Mr Lee was previously an executive director of Sino Land Company Limited (“Sino Land”), at which his responsibilities included sales, finance, acquisitions, investor relations, marketing and property management. Prior to joining Sino Land, Mr Lee was a senior partner at Deacons in Hong Kong, where he specialised in banking, property development, corporate finance and dispute resolution in Hong Kong and mainland China. Before that, he was a solicitor with the London firm Pritchard Englefield & Tobin. He was enrolled as a solicitor in the UK in 1979 and admitted as a solicitor in Hong Kong in 1980. Mr Lee became a Notary Public in Hong Kong in 1991.

Mr Lee had also served as a member of the panel of arbitrators of the China International Economic and Trade Arbitration Commission of the China Council for the Promotion of International Trade in Beijing.

He graduated from Cornell University in 1975 with a bachelor’s degree in Political Science.

BOARD OF DIRECTORS

Alexander Anthony ARENA

Aged 56, is an executive director of PCPD and a member of PCPD's Executive Committee. He is also an executive director of PCCW, deputy chairman of PCCW's Executive Committee, group chief financial officer of PCCW and a director of Pacific Century Regional Developments Limited. He became a director of PCPD in May 2004.

Prior to joining the Pacific Century Group in 1998, Mr Arena was a Special Policy Adviser to the Hong Kong Government from 1997. From 1993 to 1997, he was director-general of telecommunications at the Office of the Telecommunications Authority of Hong Kong, as well as a member of the Broadcasting Authority.

Before becoming director-general, Mr Arena was recruited to plan a reform program for the liberalisation of Hong Kong's telecommunications sector. Prior to his appointment to the Government, he was an inaugural member of the Australian Telecommunications Authority, which he served for four years.

Mr Arena has led an extensive career in public administration, specialising in high technology and infrastructure industries. From practising radio/communications engineer to public policy maker, his experience spans such diverse areas as the commercialisation of government-owned business enterprises and deregulation in the aviation, transport, telecommunications and postal industries.

Mr Arena graduated at the University of New South Wales, Australia, with a bachelor's degree in electrical engineering. His Master of Business Administration degree was completed at Australia's Melbourne University and he is a Fellow of the Hong Kong Institution of Engineers.

James CHAN

Aged 53, is an executive director and the project director of PCPD. He became a director of PCPD in August 2005.

He is responsible for the project execution of the Cyberport project and has overall responsibility for all aspects of the construction works. Mr Chan is also responsible for carrying out various new property projects of PCPD and its subsidiaries in Hong Kong and mainland China.

Prior to joining PCCW in October 2002, Mr Chan had been practising as an architect and working for a major developer in Hong Kong for 14 years, with comprehensive experience in design, planning and land matters, design development and construction management of major investment properties in that developer's portfolio, which included a wide range of industrial and warehousing, commercial, retail and residential developments in Hong Kong and overseas. He possesses a wide spectrum of experience in the property industry and has been active in the property business for more than 29 years.

Mr Chan holds a Bachelor of Arts in Architectural Studies degree from the University of Hong Kong and a Bachelor of Arts in Architecture degree from University of Dundee in Scotland. He is qualified as the Authorized Person (List I) and Registered Architect in Hong Kong, and is a member of The Hong Kong Institute of Architects, The Royal Institute of British Architects and The Royal Australian Institute of Architects.

GAN Kim See, Wendy

Aged 42, is an executive director and the sales and marketing director of PCPD. She became a director of PCPD in August 2005.

She is responsible for the overall sales and marketing of the PCPD's property assets, in particular the residential portion of the Cyberport project, Bel-Air.

Before joining PCCW in November 2000, she was head of sales and marketing at Swire Properties Limited, looking after that company's portfolio of residential, office and retail developments. Ms Gan has more than 19 years'

experience in property development and management and expertise in the sales and marketing of projects in Hong Kong and overseas.

Her marketing campaigns have received the HKMA/TVB Marketing Excellence Award for two consecutive years, a MAXI Award from the International Council of Shopping Centers, several HK 4A's Awards and the 2004 and 2005 Hong Kong Institute of Surveyors' top awards in property marketing.

Ms Gan holds a Bachelor of Arts degree with First Class Honours from the University of Hong Kong ("HKU") and is currently a member of the Council and Court of HKU. She also sits on the Management Board of the HKU School of Professional and Continuing Education and is a Senior Member of the HKU Foundation for Educational Development and Research. Ms Gan has also received a Diploma in Surveying from the College of Estate Management, England and is a member of the Royal Institution of Chartered Surveyors, the Hong Kong Institute of Surveyors and the Hong Kong Real Estate Developers Association.

NON-EXECUTIVE DIRECTORS

CHEUNG Kin Piu, Valiant

Aged 61, is an independent non-executive director of PCPD and the chairman of its Remuneration Committee. He became a director of PCPD in October 2004.

Mr Cheung had been a partner at KPMG, a leading international accounting firm in Hong Kong, until his retirement in March 2001. Mr Cheung has extensive experience in assurance and corporate finance work, particularly in trading and manufacturing corporations in Hong Kong and the People's Republic of China ("PRC"), and has assisted a number of companies in obtaining stock exchange listings in Hong Kong, the PRC, Singapore and the United States. In addition, Mr Cheung has provided financial advisory and due diligence services to foreign investors on investments in the PRC. Mr Cheung is a fellow member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants. He is currently an independent non-executive director of two other listed companies in Hong Kong, Wing Shan International Limited and Dream International Limited.

BOARD OF DIRECTORS

TSANG Link Carl, Brian

Aged 43, is an independent non-executive director of PCPD. He became a director of PCPD in October 2002.

Mr Tsang is a practising solicitor in Hong Kong and a partner of the Hong Kong law firm Iu, Lai & Li. He graduated from King's College, London with an LL.B. degree in 1985. Mr Tsang has also been admitted to practise law in England and Wales, Singapore as well as New South Wales, Queensland and the Australian Capital Territory in Australia. Mr Tsang is also an independent non-executive director of CITIC Resources Holdings Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited and a non-executive director of EVI Education Asia Limited, a company listed on the GEM Board of The Stock Exchange of Hong Kong Limited.

In 2005, Mr Tsang was appointed as an adjudicator of the Registration of Persons Tribunal. In 2006, he has also been appointed as a member of Disciplinary Panel of the Hong Kong Institute of Certified Public Accountants and a member of the Appeal Panel on Housing.

Prof WONG Yue Chim, Richard, SBS, JP

Aged 54, is an independent non-executive director of PCPD and chairman of its Audit Committee. He became a director of PCPD in July 2004.

Prof Wong currently serves as Deputy Vice-Chancellor of The University of Hong Kong. Prof Wong has been active in advancing economic research on policy issues in Hong Kong and mainland China through his work as founding director of both The Hong Kong Centre for Economic Research and Hong Kong Institute of Economics and Business Strategy. He was awarded the Silver Bauhinia Star in 1999 by the Government of the Hong Kong Special Administrative Region for his contributions in education, housing, industry and technology development. In addition, he was appointed Justice of the Peace in July 2000. Prof Wong studied Economics at the University of Chicago and graduated with a Doctorate in Philosophy.

Dr Allan ZEMAN, GBS, JP

Aged 58, is an independent non-executive director of PCPD and chairman of its Nomination Committee. He became a director of PCPD in June 2004.

After spending more than 37 years in Hong Kong, Dr Zeman has established business interests here and overseas that include property development, entertainment and public relations.

Dr Zeman is the chairman of Ocean Park, a major theme park in Hong Kong. He is also the chairman of Lan Kwai Fong Holdings Limited, the major property owner and developer in Lan Kwai Fong, one of Hong Kong's popular tourist attractions.

Dr Zeman serves as a board member of the Hong Kong Arts Festival, the Hong Kong Community Chest and the Urban Renewal Authority. He is also a member of the Tourism Strategy Group for the Hong Kong Tourism Commission, the Business Facilitation Advisory Committee, Commission on Strategic Development to serve

on Economic Development and Economic Cooperation with Mainland and the Town Planning Task Force for Economic Analysis & Business Facilitation Unit. Dr Zeman is also a member of the Board of Governors of the Canadian Chamber of Commerce and the Hong Kong General Chamber of Commerce and a member of the Asian Advisory Board of the Richard Ivey School of Business.

He is currently a director of The “Star” Ferry Company, Limited, an independent non-executive director of The Link Management Limited, Sino Land and Tsim Sha Tsui Properties Limited. Dr Zeman is also a director of Wynn Resorts, Limited, a listed company in the United States.

CORPORATE GOVERNANCE REPORT

The Group has made continued efforts to incorporate the key elements of sound corporate governance in its management structure and internal procedures. The Group is committed to high standards of ethics and integrity in all aspects of its business and to ensuring that its affairs are conducted in accordance with applicable laws and regulations and for the benefit and in the interests of shareholders of the Company.

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with all the applicable code provisions contained in the Code on Corporate Governance Practices (the “Code”) set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) for the year ended December 31, 2006, except that the Chairman of the Board was unable to attend the Company’s annual general meeting held on May 16, 2006 (which was required under the code provision E.1.2) as he had another engagement overseas that was important to the Company’s business.

MODEL CODE SET OUT IN APPENDIX 10 OF THE LISTING RULES

The Company has adopted its own code of conduct regarding securities transactions by directors and senior management, namely the PCPD Code of Conduct for Securities Transactions by Directors and Senior Management (“PCPD Code”), on terms not less exacting than the required standard under the Model Code for Securities Transactions by Directors of Listing Issuers set out in Appendix 10 to the Listing Rules.

The Company has made specific enquiry of all directors of the Company, who have confirmed that they have complied with the required standard set out in the PCPD Code for the year ended December 31, 2006.

BOARD OF DIRECTORS

As at the date of this report, the Board has 9 members, comprising 5 executive directors and 4 independent non-executive directors. Mr. Valiant Cheung, one of the independent non-

executive directors, is a qualified accountant with substantial experience in accounting and financial matters. Biographies of all the directors up to the date of this report are set out in pages 20 to 25 of this annual report.

The Board is responsible for the management of the Company. Key responsibilities of the Board include the formulation of the Group’s overall strategies, the setting of management targets and the supervision of management performance. The Board confines itself to making broad policy decisions and exercising a number of reserved powers set out below :

1. those functions and matters as set out in the terms of reference of various committees for which Board approval must be sought from time to time;
2. those functions and matters for which Board approval must be sought in accordance with the Group’s internal policy;
3. consideration and approval of financial statements in interim reports and annual reports and announcements and press releases of interim and final results;

4. consideration of dividend policy and dividend amount; and
5. monitoring of the corporate governance of the Group in order to comply with the applicable rules and regulations.

Responsibility for more detailed considerations has been delegated to the Executive Committee under the leadership of the Chairman.

The posts of Chairman and Chief Executive Officer are held by Li Tzar Kai, Richard and Lee Chi Hong, Robert respectively. The role of the Chairman is separate from that of the Chief Executive Officer. The Chairman is responsible for ensuring the effective functioning of the Board, for providing leadership for the Board in setting the corporate goals and objectives of the Company and for ensuring that good corporate governance practices and procedures are established and enforced. The Chief Executive Officer is responsible for the day-to-day management of the Group's business and operations and for ensuring the effective implementation of the Group's strategy.

All directors have full and timely access to all relevant information, including reports from each of the Board committees and briefings on significant legal, regulatory or accounting issues affecting the Group. Directors may take independent professional advice, which will be paid for by the Company.

The directors acknowledge their responsibility for preparing the financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the profits and cash flows of the Group and which are prepared in accordance with the Hong Kong Companies Ordinance. In preparing the financial statements for the year ended December 31, 2006, the directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that were prudent and reasonable, stated the reasons for any significant departure from applicable accounting standards in Hong Kong and prepared the financial statements on a going concern basis. The directors are responsible for keeping proper accounting records which disclose with

reasonable accuracy at any time the financial position, results of operations, cash flows and changes in equity of the Group. The statement of the auditors of the Company about their reporting responsibilities on the financial statements of the Company is set out in the Independent Auditors' Report in page 52.

More than one third of the members of Board are independent non-executive directors which exceeds the minimum number required under the Listing Rules. The Company has received from each of its independent non-executive directors written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers that those directors are independent.

The non-executive directors of the Company are appointed for a term of two years from the date of his appointment or re-election. However, all the directors of the Company are subject to retirement by rotation and re-election at its annual general meeting once every three years in accordance with the Company's Bye-laws.

CORPORATE GOVERNANCE REPORT

EXECUTIVE COMMITTEE

The Executive Committee of the Board operates as a general management committee with overall delegated authority from the Board. This ensures that decisions can be taken quickly to enable the Group to seize opportunities in the fast-moving business environment. The Executive Committee determines group strategy, reviews trading performance, ensures adequate funding, examines major investments and monitors management performance. The Executive Committee's authority and duties are set out in written terms of reference and it reports through the Chairman to the Board.

Current members of the Executive Committee are:

1. Li Tzar Kai, Richard (*Chairman*)
2. Lee Chi Hong, Robert
3. Alexander Anthony Arena
4. Wayne Michael Verge

REMUNERATION COMMITTEE

The Remuneration Committee is responsible for ensuring that there are formal and transparent procedures for developing and overseeing the Company's policies on the remuneration of its executive directors and senior management. In addition, the Remuneration Committee supervises the administration of the Company's share option scheme. The Remuneration Committee's authority and duties are set out in written terms of reference which specify, amongst other things, that it must comprise at least three members, the majority of whom are independent non-executive directors. The terms of reference are posted on the Company's website (www.pcpd.com).

Current members of the Remuneration Committee are:

1. Cheung Kin Piu, Valiant (*Chairman*)
2. Prof Wong Yue Chim, Richard
3. Li Tzar Kai, Richard

During the year ended December 31, 2006, the Remuneration Committee has met on one occasion. The attendance of individual directors at the committee meeting is set out in the table in page 32.

The following is a summary of the work performed by the Remuneration Committee during 2006:

- A. reviewed the remuneration of executive directors and non-executive directors and recommended the same to the Board for approval; and
- B. reviewed the existing terms of reference of the Remuneration Committee and recommended certain revisions to the Board.

Details of the remuneration of each director are set out in the financial statements in pages 86 to 90.

NOMINATION COMMITTEE

The Nomination Committee is responsible for ensuring that there are fair and transparent procedures for the appointment of directors to the Board. The Nomination Committee's authority and duties are set out in written terms of reference which specify, amongst other things, that it must comprise at least three members, the majority of whom are independent non-executive directors.

Current members of the Nomination Committee are:

1. Dr Allan Zeman (*Chairman*)
2. Li Tzar Kai, Richard
3. Cheung Kin Piu, Valiant
4. Prof Wong Yue Chim, Richard

During the year ended December 31, 2006, the Nomination Committee has met on one occasion. The attendance of individual directors at the committee meeting is set out in the table in page 32.

The following is a summary of the work performed by the Nomination Committee during 2006:

- A. advised the Board on the directors who were due to retire pursuant to law, the Company's Bye-laws and the Listing Rules and recommended their re-election to the Board; and
- B. reviewed the existing terms of reference of the Nomination Committee and considered that revision is not required.

AUDIT COMMITTEE

The Audit Committee of the Board is responsible for ensuring the objectivity and credibility of the Group's financial reporting and for ensuring that the directors have exercised the care, diligence and skills prescribed by law when presenting results to the shareholders. The Audit Committee's authority and duties are set out in written terms of reference which are posted on the Company's website.

The Audit Committee's responsibilities include the appointment, compensation and supervision of the external auditors. To ensure auditor independence, procedures have been adopted for the Audit Committee to review all audit and non-audit services provided to the Group by the external auditors.

The Audit Committee reviews the Group's financial statements and internal financial reports, as well as compliance processes and internal control systems, including the internal audit unit.

CORPORATE GOVERNANCE REPORT

All members of the Audit Committee are independent non-executive directors. Current members of the Audit Committee are:

1. Prof Wong Yue Chim, Richard (*Chairman*)
2. Cheung Kin Piu, Valiant
3. Tsang Link Carl, Brian

The Audit Committee is provided with sufficient resources to discharge its duties and meets regularly with management, internal auditors and external auditors and reviews their reports. During the year ended December 31, 2006, the Audit Committee has met on two occasions. The attendance of individual directors at the committee meetings is set out in the table in page 32.

The following is a summary of the work performed by the Audit Committee during 2006:

- A. reviewed the financial statements for the year ended December 31, 2005 and the related annual results announcement and auditors' report, with a recommendation to the Board for approval;
- B. reviewed the report of external auditors, with a recommendation to the Board for their re-appointment at the 2006 annual general meeting;
- C. reviewed the financial statements for the six months ended June 30, 2006 and the related interim results announcement, with a recommendation to the Board for approval;
- D. reviewed external auditors' reports to the Audit Committee and their terms of engagement, communications plan and audit plan for the Group for the financial year ended December 31, 2006;
- E. reviewed various internal audit reports ;
- F. reviewed the existing terms of reference of the Audit Committee and recommended certain revisions to the Board to ensure compliance with the Listing Rules and the U.S. Sarbanes-Oxley Act;
- G. reviewed audit and non-audit services provided by external auditors; and
- H. reviewed the Group's continuing connected transactions and external auditor's report thereon.

EXTERNAL AUDITORS

The Group's external auditors are PricewaterhouseCoopers. In accordance with best practices, the external auditors' engagement partner for the Group was changed in July 2006.

During the year ended December 31, 2006, the total fees in respect of audit and non-audit services provided by PricewaterhouseCoopers (which for this purpose includes any entity that is under the common control, ownership or management of the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as being part of the firm nationally or internationally) amounted to HK\$3.8 million.

The significant non-audit services covered by these fees include the following:

Nature of service	Fees paid (HK\$ million)
Tax advisory services	—
Non-statutory review services	1.7
Others	—
Total non-audit services fees	1.7

INTERNAL AUDIT

The Group's internal audit unit provides independent assurance to the Board and management on the adequacy and effectiveness of the internal controls for the Group. The internal audit unit reports directly to the Audit Committee, the Chief Executive Officer and the Chief Financial Officer.

The internal audit unit adopts a risk and control-based audit approach. An annual work plan is formulated in advance and covers major activities and processes of the Group's business and service units. All audit reports are communicated to the Audit Committee and audit issues are tracked and followed up for proper implementation, with progress reported to the Audit Committee.

The Group has adopted a Corporate Responsibility Policy that applies to all employees, including directors and officers. This sets out standards in the way the Group conducts its business and the responsibilities of the Group's employees. The policy includes guidance on obligations to the Company, civic responsibilities, equal opportunities, safeguarding of company information and property, personal data privacy, prevention of bribery, conflicts of interest, competition, health and safety at work and the environment. The full version of the Corporate Responsibility Policy is posted on the Company's website.

CORPORATE GOVERNANCE REPORT

ATTENDANCE AT MEETINGS

All directors actively participate in the Company's business. The attendance record of directors of meetings held during the year ended December 31, 2006 is set out below:

Directors	Meetings Attended/Held in 2006				AGM
	Board	Audit Committee	Nomination Committee	Remuneration Committee	
Executive directors					
Li Tzar Kai, Richard (<i>Note I</i>)	3/4	—	1/1	0/1	0/1
Lee Chi Hong, Robert	4/4	—	—	—	1/1
Alexander Anthony Arena	4/4	—	—	—	1/1
James Chan	4/4	—	—	—	1/1
Gan Kim See, Wendy	4/4	—	—	—	1/1
Yuen Tin Fan, Francis (<i>Note II</i>)	2/2	—	—	1/1	1/1
Hubert Chak (<i>Note III</i>)	4/4	—	—	—	1/1
Independent non-executive directors					
Cheung Kin Piu, Valiant	4/4	2/2	1/1	1/1	1/1
Tsang Link Carl, Brian	4/4	2/2	—	—	1/1
Prof Wong Yue Chim, Richard	4/4	2/2	1/1	1/1	1/1
Dr Allan Zeman (<i>Note IV</i>)	3/4	—	0/1	—	0/1
Ronald James Blake (<i>Note V</i>)	—	—	—	—	—

Notes:

- I. Appointed as a member of the Remuneration Committee on July 18, 2006 after the meeting of that committee in 2006 had been held.
- II. Resigned as an executive director and a member of the Remuneration Committee on June 5, 2006.
- III. Resigned as an executive director on February 9, 2007.
- IV. Re-designated as an independent non-executive director and appointed as a member and the chairman of the Nomination Committee on July 18, 2006, after the meeting of that committee in 2006 had been held.
- V. Resigned as an independent non-executive director and a member of the Audit Committee, Nomination Committee and Remuneration Committee on March 17, 2006.

INVESTOR RELATIONS

The Company encourages two-way communication with both institutional and private investors. Extensive information on the Company's activities is provided in the annual and interim reports, which are sent to shareholders. Regular dialogue takes place with institutional investors. Enquiries from individuals on matters relating to their shareholdings and the business of the Company are welcomed and will be dealt with in an informative and timely manner. Relevant contact information is provided in page 136 of this annual report.

In order to promote effective communication, financial and other information relating to the Group and its business activities is disclosed on the Company's website.

STAFF TRAINING AND DEVELOPMENT

In 2006, the Group continued to enhance and improve the standard of its employees. The Group has provided training courses to its employees or has sponsored its employees to attend courses organised by third parties, with the total training days amounting to over 400 days. The training courses aimed at assisting employees to better comply with the Group's policies and standards and to improve their career prospects within the Group. Such courses included customer services enhancement courses and legal knowledge courses provided by external consultants, anti-corruption seminars jointly organised with the Independent Commission Against Corruption, language proficiency courses, technical refresher courses and training, occupational health and safety training and training for the enhancement of mass awareness on compliance and regulatory issues.

COMMUNITY

The Group participated in, or sponsored, various charitable or community projects last year. These included the "CyberRun for Rehab" which raised funds for The Hong Kong Society for Rehabilitation, and the 2006 Sovereign Asian Art Auction Charity Dinner. The Group also actively took part in the Southern District Arts Festival 2006/07 in an effort to assist the District Council to promote the development of arts and enhance the sense of belonging in the community.

CORPORATE GOVERNANCE REPORT

ENVIRONMENT

The Group is committed to the protection of the environment and seeks to promote environmentally friendly measures in its operations. This includes the adoption of energy-efficient building designs, the requirement for the Group's property development contractors to use environmentally friendly and reusable materials to reduce construction waste and the implementation of an environmental management plan during site operation. The Group's commitment to environmental protection work is widely recognised and various phases of Cyberport have received, amongst others, the following awards: (i) an "Excellent" rating under the Hong Kong Building Environmental Assessment Method (HK-Beam) for new office designs (Version 1/96R); (ii) certification by the Electrical and Mechanical Services Department of compliance with the

Code of Practice for Energy Efficiency of Lift and Escalator Installations, Air Conditioning Installations and Lighting Installation; and (iii) an "Excellent Class" indoor air quality certificate issued by the Indoor Air Quality Information Centre.

On behalf of the Board


CHAN Ya Lai, Alice

Company Secretary

Hong Kong, March 28, 2007

FINANCIAL INFORMATION

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REPORT OF THE DIRECTORS

The directors present their annual report together with the audited consolidated financial statements of Pacific Century Premium Developments Limited (the “Company”) and its subsidiaries (the “Group”) for the year ended December 31, 2006.

PRINCIPAL ACTIVITIES

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

Details of segment information are set out in note 5 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2006 are set out in the accompanying consolidated income statement in page 54.

An interim dividend of 1.5 Hong Kong cents (2005: 1.5 Hong Kong cents) per ordinary share, totalling approximately HK\$36 million (2005: HK\$36 million), was paid to shareholders of the Company on October 13, 2006.

The board of directors (the “Board”) has recommended the payment of a final dividend of 5.5 Hong Kong cents (2005: 5.5 Hong Kong cents) per ordinary share or an aggregate amount of approximately HK\$132 million (2005: HK\$132 million) for the year ended December 31, 2006, subject to the approval of shareholders of the Company at the forthcoming annual general meeting, to shareholders whose names appear on the register of members of the Company on May 10, 2007. Such final dividend is payable on or around May 23, 2007.

FINANCIAL SUMMARY

A summary of the consolidated results and the assets and liabilities of the Group for the last five financial years is set out in page 134.

SUBSIDIARIES

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

FIXED ASSETS

Details of movements in investment properties, property, plant and equipment, properties under development/held for sale and interest in leasehold land of the Group and the Company during the year are set out in notes 13 to 16 to the consolidated financial statements.

BORROWINGS

Particulars of the borrowings of the Group and the Company are set out in note 21 to the consolidated financial statements.

SHARE CAPITAL

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

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity in page 55 and note 26 to the consolidated financial statements respectively.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2006, the aggregate sales attributable to the Group's five largest customers represented approximately 21.11 per cent of the Group's total sales, while the sales to the Group's largest customer accounted for approximately 5.41 per cent of the Group's total sales. The aggregate purchases attributable to the Group's five largest suppliers represented approximately 56.43 per cent of the Group's total purchases, while the purchases from the Group's largest supplier accounted for approximately 28.67 per cent of the Group's total purchases.

At no time during the year have the directors, their associates or any shareholders of the Company who, to the knowledge of the directors, owned more than 5 per cent of the Company's issued share capital had any interest in the Group's major customers or suppliers.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors

Li Tzar Kai, Richard (*Chairman*)

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

Alexander Anthony Arena

James Chan

Gan Kim See, Wendy

Yuen Tin Fan, Francis (*Deputy Chairman*)

(resigned on June 5, 2006)

Hubert Chak (*Chief Financial Officer*)

(resigned on February 9, 2007)

Independent Non-Executive Directors

Cheung Kin Piu, Valiant

Tsang Link Carl, Brian

Prof Wong Yue Chim, Richard, SBS, JP

Dr Allan Zeman, GBS, JP

(re-designated as Independent Non-Executive Director on July 18, 2006)

Ronald James Blake, OBE, JP

(resigned on March 17, 2006)

In accordance with Bye-laws 87(1) and 87(2) of the Company's Bye-laws, Lee Chi Hong, Robert shall retire by rotation at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

In addition, all non-executive directors are appointed for a term of 2 years. As Cheung Kin Piu, Valiant and Tsang Link Carl, Brian were re-elected as directors at the annual general meeting in 2005, they shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive directors a written confirmation of his independence for the year pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and considers that they are independent.

DIRECTORS’ SERVICE CONTRACTS

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

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

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

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

DIRECTORS’ AND CHIEF EXECUTIVE’S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at December 31, 2006, the directors and the chief executive of the Company and their associates had the following interests and short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were recorded in the register required to be kept under Section 352 of the SFO; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) of the Listing Rules :

1. The Company

As at December 31, 2006, the Company had not been notified of any interests or short positions in the shares or underlying shares or debentures of the Company held by the directors or the chief executive of the Company or their associates.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES – CONTINUED

2. Associated Corporation of the Company

A. Interests in PCCW Limited (“PCCW”)

The table below sets out the aggregate long positions of the directors and the chief executive of the Company in the shares and underlying shares of PCCW, the ultimate holding company of the Company, as at December 31, 2006.

Name of director/ chief executive	Number of ordinary shares				Number of underlying shares held under equity derivatives	Total	Percentage of issued share capital
	Personal interests	Family interests	Corporate interests	Other interests			
Li Tzar Kai, Richard	—	—	250,109,824 <i>(Note I(a))</i>	1,590,377,444 <i>(Note I(b))</i>	—	1,840,487,268	27.27%
Lee Chi Hong, Robert	992,600 <i>(Note III(a))</i>	511 <i>(Note III(b))</i>	—	—	6,000,000 <i>(Note II)</i>	6,993,111	0.10%
Alexander Anthony Arena	760,000	—	—	—	15,800,200 <i>(Note IV)</i>	16,560,200	0.25%
Hubert Chak	—	—	—	—	2,840,000 <i>(Note II)</i>	2,840,000	0.04%
James Chan	—	—	—	—	210,000 <i>(Note II)</i>	210,000	0.003%
Gan Kim See, Wendy	—	—	—	—	420,000 <i>(Note II)</i>	420,000	0.006%

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES – CONTINUED

2. Associated Corporation of the Company - Continued

A. Interests in PCCW Limited (“PCCW”) - Continued

Notes:

- I. (a) Of these shares of PCCW, Pacific Century Diversified Limited (“PCD”), a wholly-owned subsidiary of Chiltonlink Limited, held 216,362,824 shares and Eisner Investments Limited held 33,747,000 shares. Li Tzar Kai, Richard owns 100% of Chiltonlink Limited and Eisner Investments Limited.
- (b) These interests represented:
- (i) a deemed interest in 36,726,857 shares of PCCW held by Yue Shun Limited, a subsidiary of Hutchison Whampoa Limited (“HWL”). Cheung Kong (Holdings) Limited (“Cheung Kong”) through certain subsidiaries held more than one-third of the issued share capital of HWL. Li Tzar Kai, Richard was a discretionary beneficiary of certain discretionary trusts which held units in unit trusts which in turn held interests in certain shares of Cheung Kong and HWL. Li Tzar Kai, Richard was also interested in one-third of the issued share capital of two companies, which owned all the shares in the trustee companies which acted as trustees of such discretionary trusts and unit trusts. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 36,726,857 shares of PCCW held by Yue Shun Limited;
 - (ii) a deemed interest in 26,877,286 shares of PCCW held by Pacific Century Group Holdings Limited (“PCGH”). Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 26,877,286 shares of PCCW held by PCGH; and
 - (iii) a deemed interest in 1,526,773,301 shares of PCCW held by Pacific Century Regional Developments Limited (“PCRD”), a company in which PCGH had, through wholly-owned subsidiaries Anglang Investments Limited, Pacific Century Group (Cayman Islands) Limited, Pacific Century International Limited and Borsington Limited, an aggregate of 75.33% interest. Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 1,526,773,301 shares of PCCW held by PCRD.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES – CONTINUED

2. Associated Corporation of the Company - Continued

A. Interests in PCCW Limited (“PCCW”) - Continued

Notes: - Continued

II. These interests represented the interests in underlying shares in respect of share options granted by PCCW to the directors and the chief executive of the Company as beneficial owners as at December 31, 2006, details of which are set out as follows:

Name of director/ chief executive	Date of grant	Vesting period	Exercisable period	Exercise price HK\$	Number of options	
					Outstanding at 01.01.2006	Outstanding at 12.31.2006
Lee Chi Hong, Robert	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.350	5,000,000	5,000,000
	02.08.2005	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.475	1,000,000	1,000,000
Alexander Anthony Arena	08.28.1999	08.17.2000 to 08.17.2004	08.17.2000 to 08.17.2009	11.780	3,200,000	3,200,000
	08.26.2000	08.26.2001 to 08.26.2005	08.26.2001 to 08.26.2010	60.120	1,600,000	1,600,000
	02.20.2001	08.26.2001 to 08.26.2005	08.26.2001 to 01.22.2011	16.840	1,600,000	1,600,000
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.350	6,400,000	6,400,000
	02.08.2005	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.475	3,000,000	3,000,000
Hubert Chak	11.06.1999	10.25.2000 to 10.25.2002	10.25.2000 to 10.25.2009	22.760	300,000	300,000
	02.20.2001	01.22.2002 to 01.22.2006	01.22.2002 to 01.22.2011	16.840	300,000	300,000
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.350	240,000	240,000
	02.08.2005	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.475	2,000,000	2,000,000
James Chan	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.350	210,000	210,000
Gan Kim See, Wendy	01.22.2001	01.22.2002 to 01.22.2004	01.22.2002 to 01.22.2011	16.840	180,000	180,000
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.350	240,000	240,000

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES – CONTINUED

2. Associated Corporation of the Company - Continued

A. Interests in PCCW Limited ("PCCW") - Continued

Notes: - Continued

III. (a) These shares were held jointly by Lee Chi Hong, Robert and his spouse.

(b) These shares were held by the spouse of Lee Chi Hong, Robert.

IV. These interests represented Alexander Anthony Arena's beneficial interest in: (a) 200 underlying shares held in the form of 20 American Depositary Receipts which constituted listed equity derivatives; and (b) 15,800,000 underlying shares in respect of share options granted by PCCW to Alexander Anthony Arena as beneficial owner, details of which are set out in Note II above.

V. All dates are shown month/day/year.

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

As at December 31, 2006, the Company had not been notified of any short positions in the shares or underlying shares or debentures of PCCW held by the directors or the chief executive of the Company or their associates.

REPORT OF THE DIRECTORS

SHARE OPTIONS AND DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Particulars of the Company's share option schemes are set out in note 25 to the consolidated financial statements. Details of the options which have been granted and outstanding under the 2003 share option scheme during the year ended December 31, 2006 are as follows:

1. Outstanding options at January 1, 2006 and at December 31, 2006

Category of participant	Date of grant	Vesting period	Exercisable period	Exercise price HK\$	Number of options	
					Outstanding at 01.01.2006	Outstanding at 12.31.2006
Directors of the Company's subsidiary	12.20.2004	Fully vested on 12.20.2004	12.20.2004 to 12.19.2014	2.375	10,000,000	10,000,000

Note: All dates are shown month/day/year

2. Options granted during the year ended December 31, 2006

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

3. Options exercised during the year ended December 31, 2006

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

4. Options cancelled or lapsed during the year ended December 31, 2006

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

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

INTERESTS AND SHORT POSITIONS IN SHARES OF SUBSTANTIAL SHAREHOLDERS

1. Interests in the Company

As at December 31, 2006, the following persons (other than directors or the chief executive of the Company) had interests in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of shareholder	Capacity	Number of shares/ underlying shares held	Percentage of issued share capital
PCCW	Beneficial owner	2,153,555,555(<i>Note I</i>)	89.64%
Desmarais Paul G.	Investment manager	146,441,000(<i>Note II</i>)	6.10%
Nodex Inc.	Investment manager	146,441,000(<i>Note II</i>)	6.10%
Gelco Enterprises Ltd.	Investment manager	146,441,000(<i>Note II</i>)	6.10%
Power Corporation of Canada	Investment manager	146,441,000(<i>Note II</i>)	6.10%
Power Financial Corporation	Investment manager	146,441,000(<i>Note II</i>)	6.10%
IGM Financial Inc.	Investment manager	146,441,000(<i>Note II</i>)	6.10%
Peter Cundill & Associates (Bermuda) Ltd.	Investment manager	124,952,000	5.20%
OZ Management, L.L.C.	Investment manager	120,498,000	5.02%

Notes:

- I. (a) These interests represented an interest in 1,481,333,333 shares in the Company held by Asian Motion Limited, a wholly-owned subsidiary of PCCW; and
- (b) These interests represented an interest in respect of 672,222,222 underlying shares in the Company held by PCCW-HKT Partners Limited, a wholly-owned subsidiary of PCCW, arising as a result of the holding of the HK\$2,420 million guaranteed convertible note issued by PCPD Wealth Limited, a wholly-owned subsidiary of the Company, on December 29, 2006 to replace the HK\$2,420 million tranche B convertible note issued by the Company.

REPORT OF THE DIRECTORS

INTERESTS AND SHORT POSITIONS IN SHARES OF SUBSTANTIAL SHAREHOLDERS – CONTINUED

1. Interests in the Company - Continued

Notes: - Continued

- II. Each of the entities and the individual has direct or indirect control over an investment manager Mackenzie Cundill Investment Management Ltd. and is therefore deemed to be interested in the 146,441,000 shares of the Company held by Mackenzie Cundill Investment Management Ltd.

2. Short Positions in the Shares and Underlying Shares of the Company

As at December 31, 2006, the Company had not been notified of any other person who had short positions in the shares or underlying shares of the Company to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Save as disclosed above, as at December 31, 2006, the Company had not been notified of any other person who had interests or short positions in the shares and underlying shares of the Company to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

DIRECTORS' INTERESTS IN CONTRACT OF SIGNIFICANCE

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at December 31, 2006, directors of the Company had the following interests in business which competed or were likely to compete, either directly or indirectly, with the Group's business:

Name of Director	Names of investee companies	Nature of business	Nature of interests
Li Tzar Kai, Richard	Cheung Kong and its subsidiaries ("Cheung Kong Group")	Property development and investment, hotel and serviced suite operation, property and project management and investment in securities	Deemed interests in Cheung Kong (<i>Note I</i>)
	HWL and its subsidiaries ("Hutchison Group")	Ports and related services, property and hotels, retail and manufacturing, energy, infrastructure, finance and investments, and telecommunications	Certain personal and deemed interests in HWL (<i>Note II</i>)

Notes:

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

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN COMPETING BUSINESS – CONTINUED

In addition, Li Tzar Kai, Richard, Alexander Anthony Arena and Lee Chi Hong, Robert are directors of certain private companies (the “Private Companies”), which are engaged in property development and investment in Hong Kong (a development called Gough Hill) and Japan (investments in certain residential properties). Subsequent to the year end, Alexander Anthony Arena ceased to be a director of the Private Companies.

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

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

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

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

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

MANAGEMENT CONTRACTS

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

RETIREMENT BENEFITS SCHEMES

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

PRE-EMPTIVE RIGHTS

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

CONNECTED TRANSACTIONS

Since the publication of the Company's annual report for the year ended December 31, 2005, the Group had entered into (or continued to be party to) certain transactions which are "connected transactions" or "continuing connected transactions" as defined in the Listing Rules and which are subject to the disclosure requirements under Chapter 14A of the Listing Rules. The Company has complied with such disclosure requirements. Details of the continuing connected transactions with PCCW group during the year are as follows:

1. As disclosed in the Company's annual report for the year ended December 31, 2005, PCPD Facilities Management Limited ("PCPD FM") entered into an agreement with PCCW Services Limited ("PCCW Services"), a wholly-owned subsidiary of PCCW, pursuant to which PCPD FM would provide facilities management, project management, corporate and asset management services to PCCW Services at a fee calculated in accordance with the agreement, subject to an annual cap of HK\$65 million. The service fee charged by PCPD FM for the year ended December 31, 2006 was HK\$49 million.
2. As disclosed in the Company's announcement dated June 30, 2005, on June 30, 2005, the Company and PCCW Services entered into a master goods and services agreement (the "Master Agreement") for the provision by the PCCW group to the Group of certain goods and services, which include telephony equipment and services ("Telephony"), computer systems and information technology and related services ("Information Technology") and non-administrative corporate services ("Other Services"), for a term of three years from June 1, 2005 to May 31, 2008.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS – CONTINUED

The aggregate contract amounts for each category of services under the Master Agreement involved during the year were summarised as follows:

Category of Services	Aggregate contract amount for the period from January 1, 2006 to May 31, 2006	Annual cap for the period from June 1, 2005 to May 31, 2006	Aggregate contract amount for the period from June 1, 2006 to December 31, 2006	Annual cap for the period from June 1, 2006 to May 31, 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Telephony	0	2,000	98	2,000
Information Technology	2,307	11,450	2,974	7,500
Other Services	894	1,700	63	2,700

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

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

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

- A. all the transactions had been approved by the Board;
- B. all the transactions were entered into in accordance with the terms of the relevant agreements governing them;
- C. the transaction referred to in item 1 above involved the provision of goods and services and was in accordance with the relevant pricing policies of the Group; and
- D. none of the transactions had exceeded the cap disclosed in the Company's announcements dated December 6, 2004 and June 30, 2005 respectively.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken by the Group in normal course of business are set out in note 33 to the consolidated financial statements. Those related party transactions which constituted connected transactions under the Listing Rules have complied with the applicable requirements of the Listing Rules.

PUBLIC FLOAT

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

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the corporate governance report in page 26 to 34 of this annual report.

AUDITORS

The financial statements for the financial year ended December 31, 2006 have been audited by PricewaterhouseCoopers who will retire at the conclusion of the forthcoming annual general meeting. A resolution for the re-appointment of PricewaterhouseCoopers as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

CHAN Ya Lai, Alice

Company Secretary

Hong Kong, March 28, 2007

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888

TO THE SHAREHOLDERS OF PACIFIC CENTURY PREMIUM DEVELOPMENTS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Pacific Century Premium Developments Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 54 to 133, which comprise the consolidated and company balance sheets as at December 31, 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTOR'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and the Group as at December 31, 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 28, 2007

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2006

HK\$ million	Note(s)	2006	2005
Turnover	4, 5	7,263	5,127
Cost of sales		(6,075)	(4,201)
Gross profit		1,188	926
General and administrative expenses		(308)	(260)
Other revenue		57	—
Other loss		—	(61)
Finance costs	6	(130)	(127)
Interest income		376	222
Surplus on revaluation of investment properties		2	16
Impairment loss	19	(25)	(6)
Profit before taxation	7	1,160	710
Taxation	10	(195)	(113)
Profit attributable to equity holders of the Company		965	597
Dividends			
Interim dividend	11	36	36
Final dividend proposed after the balance sheet date	11	132	132
Earnings per share (expressed in Hong Kong cents per share)			
Basic	12	40.16 cents	25.77 cents
Diluted	12	35.47 cents	23.51 cents
Dividends per share (expressed in Hong Kong cents per share)	11	7.00 cents	7.00 cents

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2006

HK\$ million	2006						Retained earnings	Total
	Issued equity	Capital reserve	Currency translation reserve	Convertible notes reserve	Employee share-based compensation reserve			
Balance at January 1, 2006	4,631	(565)	72	769	15	835	5,757	
Exchange differences	—	—	127	—	—	—	127	
Net income recognised directly in equity	—	—	127	—	—	—	127	
Profit for the year	—	—	—	—	—	965	965	
Total recognised income for 2006	—	—	127	—	—	965	1,092	
Share premium reduction (note 23(c))	(322)	—	—	—	—	322	—	
Value of employee services under employee share option scheme	—	—	—	—	2	—	2	
2005 final dividend paid	—	—	—	—	—	(132)	(132)	
2006 interim dividend paid	—	—	—	—	—	(36)	(36)	
Balance at December 31, 2006	4,309	(565)	199	769	17	1,954	6,683	

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2006

HK\$ million	2005						Retained earnings	Total
	Issued equity	Capital reserve	Currency translation reserve	Convertible notes reserve	Employee share-based compensation reserve			
Balance at January 1, 2005	3,424	(565)	—	1,160	10	442	4,471	
Exchange differences	—	—	72	—	—	—	72	
Net income recognised directly in equity	—	—	72	—	—	—	72	
Profit for the year	—	—	—	—	—	597	597	
Total recognised income for 2005	—	—	72	—	—	597	669	
Issue of ordinary shares upon conversion of convertible notes	1,207	—	—	(391)	—	—	816	
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	4,631	(565)	72	769	15	835	5,757	

CONSOLIDATED BALANCE SHEET

As at December 31, 2006

HK\$ million	Note(s)	2006	2005
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	13	3,861	3,607
Property, plant and equipment	14	43	37
Properties under development	15	1,979	1,875
Interest in leasehold land	16	502	—
Goodwill	17	81	81
Other receivables		15	8
Deferred tax assets	28(b)	1	2
		6,482	5,610
Current assets			
Properties under development/held for sale	15	1,521	5,669
Sales proceeds held in stakeholders' accounts	20(a)	3,472	4,293
Restricted cash	20(b), 29(b)	826	1,332
Investment in unconsolidated subsidiaries held for sale	19	—	45
Accounts receivable, net	20(c)	438	239
Prepayments, deposits and other current assets		55	90
Amounts due from fellow subsidiaries	33(c)	5	10
Amounts due from related companies	33(c)	5	2
Short-term deposits	29(b)	173	655
Cash and cash equivalents	29(b)	2,445	2,699
		8,940	15,034
Current liabilities			
Current portion of long-term borrowings	21	24	24
Accounts payable	20(d)	93	186
Accruals, other payables and deferred income		1,451	1,603
Deposits received on sales of properties		98	822
Gross amounts due to customers for contract works	20(e)	7	11
Amounts due to fellow subsidiaries	33(c)	17	24
Amount due to ultimate holding company	33(d)	1,195	3,180
Provisions	22	1,914	5,299
Taxation		79	171
		4,878	11,320
Net current assets		4,062	3,714
Total assets less current liabilities		10,544	9,324

CONSOLIDATED BALANCE SHEET

As at December 31, 2006

HK\$ million	Note(s)	2006	2005
Non-current liabilities			
Long-term borrowings	21	1,880	1,779
Provisions	22	1,591	1,435
Deferred taxation	28(a)	375	319
Other long-term liabilities		15	34
		3,861	3,567
Net assets			
		6,683	5,757
REPRESENTING:			
Issued equity	23	4,309	4,631
Reserves		2,374	1,126
		6,683	5,757

Approved by the board of directors on March 28, 2007 and signed on behalf of the Board by

Lee Chi Hong, Robert

Director

Alexander Anthony Arena

Director

BALANCE SHEET

As at December 31, 2006

HK\$ million	Note	2006	2005
ASSETS AND LIABILITIES			
Non-current assets			
Investment in subsidiaries	18	2,870	2,870
Current assets			
Amounts due from subsidiaries	18	2,423	4,039
Current liabilities			
Current portion of long-term borrowings	21	—	24
Accruals and other payables		1	1
Amounts due to unconsolidated subsidiaries held for sale		—	8
Amount due to a fellow subsidiary		—	12
		1	45
Net current assets		2,422	3,994
Total assets less current liabilities		5,292	6,864
Non-current liabilities			
Long-term borrowings	21	—	1,779
Net assets		5,292	5,085
REPRESENTING:			
Share capital	23(b)	240	240
Reserves	26	5,052	4,845
		5,292	5,085

Approved by the board of directors on March 28, 2007 and signed on behalf of the Board by

Lee Chi Hong, Robert
Director

Alexander Anthony Arena
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2006

HK\$ million	Note	2006	2005
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	29(a)	(435)	40
INVESTING ACTIVITIES			
Proceeds from disposals of investment property, net of expenses		—	2,497
Decrease/(Increase) in bank deposits with maturity more than three months		482	(655)
Purchase of investment properties		(127)	—
Purchases of property, plant and equipment		(20)	(13)
Collection of other receivables in acquisition of subsidiaries		—	13
Instalments received from the disposal of unconsolidated subsidiaries		10	—
NET CASH INFLOW FROM INVESTING ACTIVITIES		345	1,842
FINANCING ACTIVITIES			
Dividends paid		(168)	(204)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		(168)	(204)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(258)	1,678
Exchange realignment		4	3
CASH AND CASH EQUIVALENTS			
Balance at January 1,		2,699	1,018
Balance at December 31,	29(b)	2,445	2,699

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006 (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 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.

At December 31, 2006, the directors consider the parent company of the Group to be Asian Motion Limited, a company incorporated in British Virgin Islands, and the ultimate holding company of the Group to be PCCW Limited (“PCCW”), a company incorporated in Hong Kong. PCCW produces financial statements available for public use.

The financial statements set out on pages 54 to 133 were approved by the board of directors (the “Board”) on March 28, 2007.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

a. Statement of compliance

These 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 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 Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

The HKICPA has issued certain new and revised HKFRS that are first effective or available for early adoption for the current accounting period of the Group. The following sets out the changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006 (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

Amendments to published standards effective from January 1, 2006

HKAS 39 and HKFRS 4 Amendments, Financial instruments: Recognition and Measurement and Insurance Contract - Financial Guarantee Contracts

In prior years, financial guarantees issued by the Group were disclosed as contingent liabilities in accordance with HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets”. No provision was made in respect of these guarantees unless it was more likely than not that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. With effect from January 1, 2006, in order to comply with the amendments to HKAS 39 in respect of financial guarantee contracts, the Group has changed its accounting policy for financial guarantees issued. Under the new policy, financial guarantees issued are accounted for as financial liabilities under HKAS 39 and measured initially at fair value, where the fair value can be reliably measured. There was no impact on the Group’s consolidated financial statements for the current and prior years due to the adoption of the new accounting policy.

Standards, amendments and interpretations effective from January 1, 2006 adopted by the Group but have no impact on the Group’s financial statements

HKAS 19 Amendment	Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation
HKAS 39 Amendment	Financial Instruments: Recognition and Measurement - Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	Financial Instruments: Recognition and Measurement - The Fair Value Option
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

b. Basis of preparation of the financial statements - Continued

The following standards and interpretations to existing standards have been published but not yet effective for the year ended December 31, 2006 and which the Group has not early adopted:

HKAS 1 Amendment	Presentation of Financial Statements - Capital Disclosures (effective for annual periods beginning on or after January 1, 2007)
HKFRS 7	Financial Instruments: Disclosures (effective for annual periods beginning on or after January 1, 2007)
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after March 1, 2006)
HK(IFRIC)-Int 8	Scope of HKFRS 2 (effective for annual periods beginning on or after May 1, 2006)
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives (effective for annual periods beginning on or after June 1, 2006)
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment (effective for annual periods beginning on or after November 1, 2006)
HK(IFRIC)-Int 11	HKFRS 2 - Group and Treasury Share Transactions (effective for annual periods beginning on or after March 1, 2007)
HK(IFRIC)-Int 12	Service Concession Arrangements (effective for annual periods beginning on or after January 1, 2008)

The Group has already commenced an assessment of the impact of these new HKFRS but is not yet in a position to state whether these new HKFRS would have a significant impact on its results of operations and financial position.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006 (Amount expressed in Hong Kong dollars unless otherwise stated)

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 all of its subsidiaries other than those unconsolidated subsidiaries acquired exclusively with a view for resale, 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 (note 2(h)). The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

As stated in note 19 to the 2005 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 was 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 was 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 as at December 31, 2005. These unconsolidated subsidiaries have been disposed during the year.

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 are recognised upon execution of legally binding unconditional sales contracts upon which the beneficial interest in the properties passes to the purchasers together with the significant risks and rewards of ownership.

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, revenue and profits are recognised upon completion of the development and when significant risks and rewards 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 “Revenue – Pre-completion Contracts for the Sale of Development Properties”, 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

d. Revenue recognition - Continued

(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.

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 (as lessor)

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 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 leases 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 a definite intention to develop the leasehold land is clear and action initiated, the net book value of leasehold land held under operating lease for sale is reclassified as properties under 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 (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, including qualifying borrowing costs. 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 the estimated useful lives as follows:

Other plant and equipment	2 to 10 years
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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.

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 directly attributable construction costs, borrowing costs and other related transaction costs. 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

g. Investment properties - Continued

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.

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
- investment 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.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

h. Impairment of assets - Continued

(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.

i. Properties under development/held for sale

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 (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, 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 estimated sales proceeds of properties sold in the ordinary course of business less all estimated selling expenses.

Up-front payments for leasehold land and land use rights included in properties under development are measured at amortised cost less accumulated impairment losses.

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.

Properties held for sale represent completed properties available for sales which are stated at the lower of cost and the estimated net realisable value. They are classified under current assets.

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006 (Amount expressed in Hong Kong dollars unless otherwise stated)

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.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing and is tested annually for impairment or whenever there is an indication of impairment. Impairment losses on goodwill are not reversed. 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 convertible notes 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, which 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. The conversion option is an equity instrument that is recognised in the convertible notes reserve in equity until either the note is converted or redeemed. If the note is converted, the convertible notes reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the convertible notes reserve is transferred directly to retained earnings.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

l. Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the value of financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets”; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 “Revenue”.

Rental guarantee contract of the Group is categorised as a financial liability at fair value through profit or loss at inception and is initially recognised at fair value on the date on which a contract is 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.

m. Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

In the Company’s balance sheet, investment in subsidiaries are stated at cost less any impairment loss (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.

n. 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

o. 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 billings, 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”.

p. 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.

q. Accounts and other payables

Accounts and other payables are initially at fair value and thereafter stated at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

r. 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.

s. 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

t. 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.

Loans and 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 loans and 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.

u. Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. 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

v. Employee benefits

- (i) Salaries, annual bonuses, annual leave entitlements, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, provisions are made for the estimated liability as a result of services rendered by employees up to the balance sheet date.
- (ii) Defined benefit and defined contribution retirement schemes (including the Mandatory Provident Fund) are offered to employees of the Group. The schemes are operated by PCCW and the assets of such schemes are generally held in separate trustee-administered funds. The schemes are generally funded by payments from the relevant companies of the PCCW Group including the Group and, in some cases, employees themselves, taking 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 per cent of the greater of the present value of the defined benefit obligations and the fair value of the scheme assets, are recognised in the income statement over the expected average remaining service lives of the participating employees. Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

v. 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). 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.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

w. 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.

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.

x. 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.

y. Dividend distribution

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006 (Amount expressed in Hong Kong dollars unless otherwise stated)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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 fair value of the liability portion of a convertible debt was determined by using a market interest rate for an equivalent non-convertible debt at the date the convertible notes was issued in May 2004. This amount is recorded as a financial liability and is measured on the amortised cost basis using effective interest method minus principal repayment. Had management determined that a different market interest rate of an equivalent non-convertible debt was appropriate at the date the convertible notes was issued in May 2004, this would have caused different amount of finance costs charged to the income statement for each accounting period.

(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 or to undergo the sale of those subsidiaries if the purchaser fails to perform according to the sales and purchase agreement. Such subsidiaries have been excluded from the Group's consolidation for both 2005 and 2006. An agreement was entered during the year and the unconsolidated subsidiaries were disposed as at December 31, 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 for the disposal of the property known as PCCW Tower, 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 up to February 7, 2010. The Group derecognised the property as at February 7, 2005 on the basis that the Group considered that the significant risks and rewards associated with the ownership of PCCW Tower were transferred to the purchaser as of that date as the potential shortfall in covering the guaranteed net monthly rental, if any, was expected to 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 (see note 13 for further details).

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS - 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) Cost of sales and provisions

The recognition of cost of sales for the Cyberport project, including the payments to the Government of the Hong Kong Special Administrative Region ("HKSAR") pursuant to the Cyberport Project Agreement (note 15a), is based on the estimated total sales proceeds of the residential portion of the Cyberport project and the estimated total development costs, enabling appropriate margins to be recorded at each phase. The Government of the HKSAR is entitled to receive approximately 65 per cent from the surplus cash flow earned from the Cyberport project and forms part of the development costs for the Cyberport project. Significant variations in estimating the future sales proceeds and development costs would affect the amount of the cost of sales and the required provision to the Government of the HKSAR.

The Group has also made certain assumptions when significant risks and rewards of ownership of properties are transferred to purchasers. The estimation on the transfer of risks and reward of ownership of properties would affect the Group's profits for the year and the carrying value of properties under developments.

(ii) Estimated valuation of investment properties

The best evidence of fair value is current prices in an active market for similar leases 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, expected future market rentals and discount rates to determine the fair value of the investment properties. Had the Group used different future market rentals, discount rates and other assumptions, the fair value of the investment properties would be different and thus caused impact to the consolidated income statement. As at December 31, 2006, the fair value of the investment properties was HK\$3,861 million.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006 (Amount expressed in Hong Kong dollars unless otherwise stated)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS - CONTINUED

(iii) Estimated provision for rental guarantee

The rental guarantee in relation to PCCW Tower is accounted for as a financial liability at fair value through profit or loss. The best evidence of fair value is current prices in an active market for similar leases 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. Had the estimated future market rentals changed or a different discount rate been used, adjustments to the provision for rental guarantee would be made. As at December 31, 2006, the provision for rental guarantee was HK\$3 million (see note 31a for further details).

(iv) Goodwill impairment

The Group tests annually whether goodwill has suffered any impairment. 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. As at December 31, 2006, goodwill balance recognised in the consolidated balance sheet was HK\$81 million.

(v) 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 carried forward in the future, adjustments to the recorded amount of net deferred tax assets and taxation expense would be made. As at December 31, 2006, the total deferred tax assets recognised was HK\$15 million, with HK\$14 million deferred tax assets netted off against the deferred tax liabilities recognised in the consolidated balance sheet (note 28a).

4. TURNOVER

Turnover comprises revenues recognised in respect of the following businesses:

HK\$ million	The Group	
	2006	2005
Property development	6,953	4,821
Property investment	228	233
Other businesses	82	73
	7,263	5,127

5. SEGMENT INFORMATION

Segment information is presented in respect of the Group's business 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 includes property development projects in Hong Kong and Beijing.
- 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006 (Amount expressed in Hong Kong dollars unless otherwise stated)

5. SEGMENT INFORMATION - CONTINUED

a. Business segments - Continued

HK\$ million	Property development		Property investment		Other businesses		Elimination		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
REVENUE										
External revenue	6,953	4,821	228	233	82	73	—	—	7,263	5,127
Inter-segment revenue	—	—	—	—	36	37	(36)	(37)	—	—
Total revenue	6,953	4,821	228	233	118	110	(36)	(37)	7,263	5,127
RESULT										
Segment results	822	548	143	104	2	2	—	—	967	654
Unallocated corporate expenses									(28)	(33)
Finance costs									(130)	(127)
Interest income									376	222
Impairment loss									(25)	(6)
Profit before taxation									1,160	710
Taxation									(195)	(113)
Profit attributable to equity holders of the Company									965	597

5. SEGMENT INFORMATION - CONTINUED

a. Business segments - Continued

HK\$ million	Property development		Property investment		Other businesses		Elimination		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
OTHER INFORMATION										
Capital expenditure incurred during the year	12	—	134	7	1	6	—	—	147	13
Depreciation and amortisation	6	—	10	8	4	3	—	—	20	11
Surplus on revaluation of investment properties credited to the income statement	—	—	2	16	—	—	—	—	2	16
Impairment loss recognised in the income statement	—	—	—	—	25	6	—	—	25	6
Provision for doubtful debts	—	—	—	—	—	7	—	—	—	7
Value of employee services under employee share option scheme	—	—	—	—	2	5	—	—	2	5
ASSETS										
Segment assets	8,801	13,417	4,014	3,804	39	72	—	—	12,854	17,293
Investment in unconsolidated subsidiaries held for sale									—	45
Unallocated corporate assets									2,568	3,306
Consolidated total assets									15,422	20,644
LIABILITIES										
Segment liabilities	6,286	12,534	431	437	36	52	—	—	6,753	13,023
Unallocated corporate liabilities									1,986	1,864
Consolidated total liabilities									8,739	14,887

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006 (Amount expressed in Hong Kong dollars unless otherwise stated)

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.

HK\$ million	Revenue from external customers		Segment assets		Capital expenditure incurred during the year	
	2006	2005	2006	2005	2006	2005
Hong Kong	7,038	4,915	10,890	16,877	13	6
Mainland China	225	212	4,532	3,767	134	7
	7,263	5,127	15,422	20,644	147	13

6. FINANCE COSTS

HK\$ million	The Group	
	2006	2005
Interest expense:		
Convertible notes wholly repayable after 5 years (note 21)	125	127
Other finance costs	5	—
	130	127

7. PROFIT BEFORE TAXATION

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

HK\$ million	The Group	
	2006	2005
Crediting:		
Gross rental income from investment properties	228	233
Other rental income	3	—
Less: outgoings	(16)	(21)
Surplus on revaluation of investment properties	2	16
Gain on disposal of an investment property	—	8
Charging:		
Cost of properties sold	5,987	4,119
Depreciation, included in:		
- cost of sales	1	1
- general and administrative expenses	14	10
Amortisation of leasehold land	5	—
Staff costs, included in:		
- cost of sales	45	43
- general and administrative expenses	91	86
Contributions to defined contribution retirement scheme, included in:		
- cost of sales	3	3
- general and administrative expenses	5	3
Contributions to defined benefit retirement scheme, included in cost of sales	—	1
Auditors' remuneration	2	2
Operating lease rental		
- land and buildings	4	3
- equipment	3	2
Value of employee services under employee share option scheme	2	5
Provision for doubtful debts	—	7
Net foreign exchange loss	3	—

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December 31, 2006 (Amount expressed in Hong Kong dollars unless otherwise stated)

8. DIRECTORS' EMOLUMENTS

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

HK\$ '000	The Group 2006				The Group 2005			
	Directors' fee	Salaries, allowances, other allowances and benefits in kind	Bonuses	Retirement scheme contributions	Directors' fee	Salaries, allowances, other allowances and benefits in kind	Bonuses	Retirement scheme contributions
Executive Directors								
Li Tzar Kai, Richard (note i)	—	—	—	—	—	—	—	—
Lee Chi Hong, Robert	—	11,000	7,270	904	—	11,000	7,904	904
Alexander Anthony Arena (note i)	—	—	—	—	—	—	—	—
Hubert Chak (note i)	—	—	—	—	—	—	1,600	—
James Chan	—	3,068	1,600	258	—	2,891	2,379	243
Gan Kim See, Wendy	—	3,068	2,565	322	—	2,891	4,216	253
Independent Non-executive Directors								
Ronald James Blake, OBE, JP (note ii)	42	—	—	—	200	—	—	—
Cheung Kin Piu, Valiant	200	—	—	—	200	—	—	—
Tsang Link Carl, Brian	150	—	—	—	150	—	—	—
Prof Wong Yue Chim, Richard, SBS, JP	200	—	—	—	200	—	—	—
Dr Allan Zeman, GBS, JP (note iii)	175	—	—	—	150	—	—	—
	767	17,136	11,435	1,484	900	16,782	16,099	1,400

8. DIRECTORS' EMOLUMENTS - CONTINUED

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

- i. The remuneration of executive directors employed by PCCW, the ultimate holding company of the Group, is borne by PCCW except a bonus was paid to Hubert Chak by the Company in 2005.
- ii. Resigned as independent non-executive director on March 17, 2006.
- iii. Re-designated as independent non-executive director effective July 18, 2006.
- iv. The total directors' emoluments for the year ended December 31, 2006, including the amortised share-based compensation, were HK\$31 million (2005: HK\$39 million).
- v. No directors waived the right to receive emoluments during the current and prior years.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006 (Amount expressed in Hong Kong dollars unless otherwise stated)

8. DIRECTORS' EMOLUMENTS - CONTINUED

b. Share-based compensation

For executive directors employed by PCCW, the values of their services under PCCW's share option scheme borne by PCCW, are excluded from the analysis below.

Grant date	The Group							Realised benefits (note i) HK\$'000
	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		Share-based compensation charged to income statement (note ii) HK\$'000	
	Exercise price of share options							
	HK\$							
Executive Directors								
Lee Chi Hong, Robert	July 25, 2003	4.35	5,000,000	—	5,000,000	5,000,000	841	—
	February 8, 2005	4.475	1,000,000	—	1,000,000	500,000	299	—
James Chan	July 25, 2003	4.35	210,000	—	210,000	210,000	105	—
Gan Kim See, Wendy	July 25, 2003	4.35	240,000	—	240,000	240,000	121	—
							1,366	—

8. DIRECTORS' EMOLUMENTS - CONTINUED

b. Share-based compensation - Continued

		The Group 2005						
		Number of share options/ shares		Number of options	Number of share options/ shares	Number of share options	Share-based compensation charged to income statement (note ii)	Realised benefits (note i)
Grant date	Exercise price of share options	outstanding at beginning of year	exercised/ shares transferred	exercised/ shares transferred	outstanding at end of year	vested	HK\$'000	HK\$'000
		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	—

i. Realised benefits

No director exercised share options in 2006 and 2005. The realised benefits represent the market value of the relevant shares at the date of transfer.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006 (Amount expressed in Hong Kong dollars unless otherwise stated)

8. DIRECTORS' EMOLUMENTS - CONTINUED

b. Share-based compensation - Continued

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 and timing of exercise. The details of these share options are disclosed under the section "Share Options and Directors' Right to Acquire Shares or Debentures" in the Report of the Directors and note 25 to the consolidated financial statements.

9. FIVE TOP-PAID EMPLOYEES

- a. Of the five highest paid individuals in the Group, three (2005: three) are directors whose emoluments are set out in note 8. Details of the emoluments of the other two highest paid individuals (2005: two) were as follows:

HK\$ million	The Group	
	2006	2005
Salaries and other short-term employee benefits	8	7
Bonuses	2	3
Post-employment benefits	1	1
	11	11

9. FIVE TOP-PAID EMPLOYEES - CONTINUED

b. The emoluments of the remaining two individuals (2005: two) are within the emolument ranges as set out below:

	The Group	
	Number of individuals	
	2006	2005
HK\$4,200,001 - HK\$4,300,000	1	—
HK\$5,100,001 - HK\$5,200,000	—	1
HK\$5,700,001 - HK\$5,800,000	—	1
HK\$6,000,001 - HK\$6,100,000	1	—
	2	2

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 current and prior years.

NOTES TO THE FINANCIAL STATEMENTS

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10. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5 per cent (2005: 17.5 per cent) on the estimated assessable profits for the year.

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

HK\$ million	The Group	
	2006	2005
Hong Kong profits tax		
- Provision for current year	146	95
- Over provision in respect of prior years	(1)	(1)
Mainland China income tax		
- Provision for current year	4	—
- Under provision in respect of prior years	1	—
Deferred taxation relating to the origination and reversal of temporary differences (note 28)	45	19
	195	113

10. TAXATION - CONTINUED

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

HK\$ million	The Group	
	2006	2005
Profit before taxation	1,160	710
Notional tax on profit before taxation, calculated at 17.5 per cent	203	124
Income not subject to taxation	(65)	(40)
Expenses not deductible for taxation purposes	32	34
Utilisation of tax losses not previously recognised	—	(21)
Tax losses not recognised	2	—
Over provision in respect of prior years	—	(1)
Effect of different tax rate of subsidiaries operating in mainland China	23	17
Taxation charge	195	113

11. DIVIDENDS

HK\$ million	2006	2005
Interim dividend of 1.5 Hong Kong cents per ordinary share (2005: 1.5 Hong Kong cents per ordinary share) paid	36	36
Final dividend proposed after the balance sheet date of 5.5 Hong Kong cents per ordinary share (2005: 5.5 Hong Kong cents per ordinary share)	132	132
	168	168

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006 (Amount expressed in Hong Kong dollars unless otherwise stated)

12. EARNINGS PER SHARE

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

	2006	2005
Earnings (HK\$ million)		
Earnings for the purpose of calculating the basic earnings per share	965	597
Finance costs on convertible notes	125	126
Earnings for the purpose of calculating the diluted earnings per share	1,090	723

	2006	2005
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating the basic earnings per share	2,402,459,873	2,318,405,078
Effect of dilutive potential ordinary shares on conversion of convertible notes and employee share option	672,222,222	756,277,017
Weighted average number of ordinary shares for the purpose of calculating the diluted earnings per share	3,074,682,095	3,074,682,095

13. INVESTMENT PROPERTIES

HK\$ million	The Group	
	2006	2005
Balance at January 1,	3,607	6,316
Addition	127	—
Disposal	—	(2,800)
Surplus on revaluation of investment properties	2	16
Exchange differences	125	75
Balance at December 31,	3,861	3,607

13. INVESTMENT PROPERTIES - CONTINUED

Investment properties held in Hong Kong and mainland China were revalued as at December 31, 2006 by an independent valuer. The basis of valuation for investment properties was open market value. The fair value gain during the year amounted to HK\$2 million (2005: HK\$16 million) was credited to the consolidated income statement under surplus on revaluation of investment properties.

In the consolidated income statement, cost of sales includes HK\$16 million (2005: HK\$21 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 indirectly wholly-owned subsidiary of the Company, entered into the Property Sales and Purchase Agreement with Richly Leader Limited (the “Purchaser”), a third party, for the disposal of PCCW Tower 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 had recorded a gain on disposal of HK\$8 million for 2005 (see note 31a for details of guarantee to the Purchaser by the Group in relation to this transaction).

The carrying amount of investment properties is analysed as follows:

HK\$ million	The Group	
	2006	2005
Held in Hong Kong		
On medium-term lease (10-50 years)	35	33
Held in mainland China		
On long lease (over 50 years)	730	696
On medium-term lease (10-50 years)	3,096	2,878
	3,861	3,607

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006 (Amount expressed in Hong Kong dollars unless otherwise stated)

14. PROPERTY, PLANT AND EQUIPMENT

HK\$ million	The Group Other plant and equipment
At January 1, 2005	
At cost	53
Less : Accumulated depreciation	(18)
Net book value	35
At December 31, 2005	
At cost	67
Less: Accumulated depreciation	(30)
Net book value	37
At January 1, 2006	
Net book value at January 1, 2006	35
Additions	13
Depreciation	(11)
Net book value at December 31, 2005	37
At December 31, 2006	
Net book value at January 1, 2006	37
Additions	20
Depreciation	(15)
Exchange differences	1
Net book value at December 31, 2006	43
At December 31, 2006	
At cost	89
Less: Accumulated depreciation	(46)
Net book value	43

15. PROPERTIES UNDER DEVELOPMENT/HELD FOR SALE

HK\$ million	The Group	
	2006	2005
Properties under development	3,210	7,413
Less: Properties under development classified as non-current assets	(1,979)	(1,875)
Properties held for sale	1,231	5,538
	290	131
Properties under development/held for sale	1,521	5,669

- 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006 (Amount expressed in Hong Kong dollars unless otherwise stated)

16. INTEREST IN LEASEHOLD LAND

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

HK\$ million	The Group		Total
	Lease in Hong Kong over 50 years	Lease in mainland China over 50 years	
Balance at January 1, 2005	155	—	155
Transfer to properties under development	(155)	—	(155)
Balance at December 31, 2005	—	—	—
Balance at January 1, 2006	—	—	—
Addition	—	495	495
Amortisation	—	(5)	(5)
Exchange differences	—	12	12
Balance at December 31, 2006	—	502	502

The leasehold land transferred to properties under development in 2005 was subjected to amortisation over the period of the lease on a straight-line basis. The amount of amortisation charge of the leasehold land had been capitalised as part of the cost of properties under development. As at December 31, 2006, the net book value of leasehold land included in properties under development was approximately HK\$155 million (2005: HK\$155 million).

17. GOODWILL

HK\$ million	The Group	
	2006	2005
Cost		
Balance at January 1,	81	84
Elimination of accumulated amortisation (note a)	—	(3)
Balance at December 31,	81	81
Accumulated amortisation		
Balance at January 1, (note a)	—	(3)
Elimination against cost of goodwill (note a)	—	3
Balance at December 31,	—	—
Net Book Value		
Balance at December 31,	81	81
Balance at January 1,	81	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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006 (Amount expressed in Hong Kong dollars unless otherwise stated)

18. INVESTMENT IN SUBSIDIARIES

HK\$ million	The Company	
	2006	2005
Unlisted shares, at cost	2,870	2,870

Dividends from the mainland China entities accounted for as subsidiaries will be declared based on the profits in the statutory financial statements of these mainland China entities 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, 2006, the Group has financed the operations of certain of its entities in mainland China in the form of shareholder's loans amounting to approximately US\$199 million (2005: US\$199 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 balances with subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment. The amounts due from subsidiaries as at December 31, 2006 were HK\$2,423 million (2005: HK\$4,039 million).

As at December 31, 2006, 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%
Atkins Developments Limited	British Virgin Islands	Investment holding	US\$1	—	100%
Beijing Jing Wei House and Land Estate Development Co., Ltd. 北京京威房地產開發有限公司 ¹	The People's Republic of China	Property development	US\$100,000,000	—	100%

18. INVESTMENT IN SUBSIDIARIES – CONTINUED

Company name	Place of incorporation/ operations	Principal activities	Nominal value of issued capital/ registered capital	Equity interest attributable to the Group	
				Directly	Indirectly
Beijing Jingwei Property Management Co., Ltd. 北京京威物業管理有限公司 ²	The People's Republic of China	Property management	US\$150,000	—	100%
北京啟夏房地產開發有限公司 ³	The People's Republic of China	Property development	US\$33,000,000	—	100%
Carlyle International Limited	Hong Kong	Entrustment work	HK\$2	—	100%
Carmay Investment Limited	Hong Kong	Property holding	HK\$2	—	100%
Cyber-Port Limited	Hong Kong	Property development	HK\$2	—	100%
Cyber-Port Management Limited	Hong Kong	Provision of project management services	HK\$2	—	100%
Excel Bright Properties Limited	British Virgin Islands	Investment holding	US\$2	—	100%
Extra Lite International Limited	British Virgin Islands	Investment holding	US\$1	—	100%
Gain Score Limited	British Virgin Islands	Investment holding	US\$1	—	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	Hong Kong	Trademark registrant	HK\$2	—	100%
Midgre Properties Limited	British Virgin Islands	Investment holding	US\$2	—	100%
Pacific Century Paramount Real Estate Company Limited	Hong Kong	Estate agency	HK\$1	—	100%

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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
Partner Link Investments Limited	British Virgin Islands/ Hong Kong	Investment holding	US\$1	—	100%
PCPD Corporate Services Limited	Hong Kong	Corporate services	HK\$1	—	100%
PCPD Facilities Management Limited	Hong Kong	Property management	HK\$2	—	100%
PCPD Operations Limited	British Virgin Islands/ Hong Kong	Corporate services	US\$1	—	100%
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%
PCPD Services Limited	Hong Kong	Provision of management services	HK\$2	—	100%
PCPD Wealth Limited	Hong Kong	Investment holding	HK\$1	—	100%
Pride Pacific Limited	Hong Kong	Financing	HK\$2	—	100%
Prime Asset Investment Limited	Hong Kong	Investment holding	HK\$1	—	100%
Smart Phoenix Limited	British Virgin Islands	Property development	US\$1	—	100%
Talent Master Investments Limited	British Virgin Islands/ Hong Kong	Property development	US\$1	—	100%
Toppest Class Limited	British Virgin Islands	Investment holding	US\$1	—	100%
Wise Union Enterprises Limited	British Virgin Islands	Investment holding	US\$1	—	100%

Notes:

- 1 Represents a Sino-foreign cooperative joint venture.
- 2 Represents a wholly foreign investment enterprise.
- 3 Represents a wholly foreign owned enterprise.

19. INVESTMENT IN UNCONSOLIDATED SUBSIDIARIES HELD FOR SALE

HK\$ million	The Group	
	2006	2005
Unlisted shares, at cost	—	55
Less: Provision for impairment in value	—	(10)
	—	45

In respect of certain subsidiaries of the Company acquired and held exclusively with a view to resale, the investment in these subsidiaries of the Company was 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. The results of these unconsolidated subsidiaries were excluded from the consolidated income statement except that the Group had recorded impairment provision of HK\$6 million in 2005.

An agreement was entered during the year with Asian Century Properties Limited, a British Virgin Islands company, for the disposal of the Company's entire interest in the gas operation, payable by instalments in 2006. The Group has received HK\$10 million from Asian Century Properties Limited in 2006 and a provision of HK\$25 million has been made against the outstanding sales consideration receivable. This provision has reduced the carrying value of the receivable to HK\$10 million, which has been recovered in January 2007.

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\$826 million as at December 31, 2006 (2005: HK\$1,332 million) held in specific bank accounts. The uses of the funds are specified in the Cyberport Project Agreement.

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20. CURRENT ASSETS AND LIABILITIES – CONTINUED

c. Accounts receivable, net

An aging analysis of accounts receivable is set out below:

HK\$ million	The Group	
	2006	2005
Current	418	172
One to three months	—	64
More than three months	20	3
	438	239

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.

d. Accounts payable

An aging analysis of accounts payable is set out below:

HK\$ million	The Group	
	2006	2005
Current	80	181
One to three months	5	5
More than three months	8	—
	93	186

20. CURRENT ASSETS AND LIABILITIES – CONTINUED

e. Gross amounts due to customers for contract works

HK\$ million	The Group	
	2006	2005
Contract costs incurred plus attributable profits less foreseeable losses	779	784
Less: Estimated value of work performed	(786)	(795)
	(7)	(11)

The total amount of progress billings, included in the estimated value of work performed as at December 31, 2006, was approximately HK\$786 million (2005: HK\$782 million).

21. LONG-TERM BORROWINGS

HK\$ million	The Group		
	Long-term borrowings	2006 Convertible notes reserve	Total
Balance at January 1, 2006	1,803	769	2,572
Finance costs charged to consolidated income statement (note a)	125	—	125
Interest paid	(12)	—	(12)
	1,916	769	2,685
Interest amount payable included in amounts due to fellow subsidiaries	(12)	—	(12)
Balance at December 31, 2006	1,904	769	2,673
Less: Amount classified as current liabilities	(24)	—	(24)
	1,880	769	2,649

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21. LONG-TERM BORROWINGS – CONTINUED

HK\$ million	Long-term borrowings	The Group 2005 Convertible notes reserve	Total
Balance at January 1, 2005	2,516	1,160	3,676
Finance costs charged to consolidated income statement (note a)	127	—	127
Reduction in balances as a result of the Conversion (note b)	(816)	(391)	(1,207)
Interest paid	(12)	—	(12)
	1,815	769	2,584
Interest amount payable included in amounts due to fellow subsidiaries	(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

HK\$ million	The Company		
	Long-term borrowings	2006 Convertible notes reserve	Total
Balance at January 1, 2006	1,779	769	2,548
Novation of convertible notes (tranche B note due 2014) to an indirectly wholly-owned subsidiary (note c)	(1,779)	(769)	(2,548)
Balance at December 31, 2006	—	—	—

HK\$ million	The Company		
	Long-term borrowings	2005 Convertible notes reserve	Total
Balance at January 1, 2005	2,516	1,160	3,676
Finance costs charged to income statement (note a)	127	—	127
Reduction in balances as a result of the Conversion (note b)	(816)	(391)	(1,207)
Interest paid	(12)	—	(12)
	1,815	769	2,584
Interest amount payable included in amounts due to fellow subsidiaries	(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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006 (Amount expressed in Hong Kong dollars unless otherwise stated)

21. LONG-TERM BORROWINGS – CONTINUED

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 its designated subsidiary 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.

- a. Interest expense on the convertible notes is calculated using the effective interest method by applying the effective interest rate of 6.87 per cent to the liability component.
- b. On February 24, 2005, PCCW elected to convert the tranche A note due 2011 with a principal amount of HK\$1,170 million into new shares of HK\$0.10 each at HK\$2.25 per share pursuant to the terms of the tranche A note (the “Conversion”). 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 (note 23b(i)).
- c. 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 per cent of the outstanding principal amount if conversion does not occur. Effective from January 1, 2006, the Company novated the tranche B note to an indirectly wholly-owned subsidiary at a consideration of HK\$2,128 million. The terms of the tranche B note remain unchanged after the novation that the noteholder retains the right to convert such note into 672,222,222 shares of the Company at HK\$3.6 per share. The Company has granted rights to this indirectly wholly-owned subsidiary to purchase the same number of shares of the Company at HK\$3.6 per share with expiry in 2014. The Company has recorded this call option at its fair value on the date of grant at HK\$222 million under other reserve in equity (note 26).

22. PROVISIONS

HK\$ million	The Group		
	2006		
	Payment to the Government (note a)	Others	Total
Balance at January 1, 2006	6,705	29	6,734
Additional provisions included in properties under development	390	—	390
Additional provisions made	—	16	16
Provisions settled	(3,615)	(20)	(3,635)
Balance at December 31, 2006	3,480	25	3,505
Less: Amount classified as current liabilities	(1,889)	(25)	(1,914)
	1,591	—	1,591

HK\$ million	The Group		
	2005		
	Payment to the Government (note a)	Others	Total
Balance at January 1, 2005	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)
Balance at December 31, 2005	6,705	29	6,734
Less: Amount classified as current liabilities	(5,270)	(29)	(5,299)
	1,435	—	1,435

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22. PROVISIONS – CONTINUED

- a. Pursuant to the Cyberport Project Agreement (note 15a), the Government of the HKSAR shall be entitled to receive payments of approximately 65 per cent from the surplus cash flow 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 (note a)	Issued equity HK\$ million (note a)
Ordinary shares of HK\$0.10 each at January 1, 2005	1,882,459,873	3,424
Issue of new shares for the Conversion of convertible notes tranche A (note b(i))	520,000,000	1,207
Ordinary shares of HK\$0.10 each at December 31, 2005 and January 1, 2006	2,402,459,873	4,631
Reduction of share premium (note c)	—	(322)
Ordinary shares of HK\$0.10 each at December 31, 2006	2,402,459,873	4,309

- 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 January 1, 2005, December 31, 2005 and December 31, 2006	10,000,000,000	1,000
Issued and fully paid:		
Ordinary shares of HK\$0.10 each at January 1, 2005	1,882,459,873	188
Issue of new shares for the Conversion of convertible notes tranche A (note (i))	520,000,000	52
Ordinary shares of HK\$0.10 each at December 31, 2005 and December 31, 2006	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 per cent of the issued shares of the Company. Immediately after the Conversion, PCCW held approximately 61.66 per cent of the enlarged issued share capital of the Company.

c. On May 16, 2006, a special resolution was passed at the Company’s Annual General Meeting approving the reduction of share premium by cancelling a sum of approximately HK\$322 million standing to the credit of the Company’s share premium account against the accumulated losses of the Company of same amount.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006 (Amount expressed in Hong Kong dollars unless otherwise stated)

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 per cent 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 “Employee Benefits”. In 2005, the Group injected approximately HK\$1 million to the DB Schemes to make up part of the funding deficit as at October 31, 2005.

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. 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 per cent 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 (note (ii) below) prior to its termination.

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 per cent 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 per cent 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).

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December 31, 2006 (Amount expressed in Hong Kong dollars unless otherwise stated)

25. EQUITY COMPENSATION BENEFITS – CONTINUED

Share option scheme – Continued

Details of share options granted by the Company pursuant to the 2003 share option scheme and the share options outstanding at December 31, 2006, are as follows:

(i) Movements in share options

	Number of options	
	2006	2005
Balance at January 1, and December 31, (note (ii))	10,000,000	10,000,000
Options vested at December 31,	10,000,000	10,000,000

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

Date of grant	Exercise period	Exercise price HK\$	2006		2005	
			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 years ended December 31, 2006 and 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, 2006.

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:

	2006		2005	
	Average exercise price in HK\$ per share	Number of options	Average exercise price in HK\$ per share	Number of options
Balance at January 1, and December 31,	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 per cent, 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, no expenses were charged to the current and prior years' consolidated income statements as allowed by the transitional provision of HKFRS 2 "Share-based Payment".

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006 (Amount expressed in Hong Kong dollars unless otherwise stated)

26. RESERVES

HK\$ million	The Company							Total
	2006							
	Share premium	Capital redemption reserve	Convertible notes reserve	Other reserve	Contributed surplus	Employee share-based compensation reserve	(Deficit)/ Retained earnings	
Balance at January 1, 2006	4,193	1	769	—	189	15	(322)	4,845
Profit for the year	—	—	—	—	—	—	373	373
Total recognised income for 2006	—	—	—	—	—	—	373	373
Share premium reduction (note 23c)	(322)	—	—	—	—	—	322	—
Novation of convertible notes (tranche B note due 2014) to an indirectly wholly-owned subsidiary	—	—	(769)	547	—	—	—	(222)
Call option issued to an indirectly wholly-owned subsidiary in relation to novation of convertible notes (tranche B note due 2014) (note 21c)	—	—	—	222	—	—	—	222
Value of employee services under employee share option scheme	—	—	—	—	—	2	—	2
2005 final dividend paid	—	—	—	—	(132)	—	—	(132)
2006 interim dividend paid	—	—	—	—	(36)	—	—	(36)
Balance at December 31, 2006	3,871	1	—	769	21	17	373	5,052

26. RESERVES – CONTINUED

HK\$ million	The Company 2005							Total
	Share premium	Capital redemption reserve	Convertible notes reserve	Other reserve	Contributed surplus	Employee share-based compensation reserve	Deficit	
Balance at January 1, 2005	3,038	1	1,160	—	393	10	(197)	4,405
Loss for the year	—	—	—	—	—	—	(125)	(125)
Total recognised loss for 2005	—	—	—	—	—	—	(125)	(125)
Issue of ordinary shares upon conversion of convertible notes	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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006 (Amount expressed in Hong Kong dollars unless otherwise stated)

27. EMPLOYEE SHARE-BASED COMPENSATION RESERVE

HK\$ million	The Group	
	2006	2005
At January 1,	15	10
Employee share option benefits	2	5
At December 31,	17	15

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 (note 2(v)(iii)).

28. DEFERRED TAXATION

a. The components of deferred tax liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

HK\$ million	The Group				
	Accelerated tax depreciation	Revaluation of properties	2006 Tax losses	Others	Total
At January 1, 2006	196	146	(11)	(12)	319
Charged/(Credited) to consolidated income statement (note 10)	33	(3)	11	3	44
Exchange differences	7	5	—	—	12
At December 31, 2006	236	148	—	(9)	375

28. DEFERRED TAXATION – CONTINUED

a. The components of deferred tax liabilities recognised in the consolidated balance sheet and the movements during the year are as follows: – Continued

HK\$ million	The Group				Total
	Accelerated tax depreciation	Revaluation of properties	Tax losses	Others	
At January 1, 2005	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
Exchange differences	3	3	—	—	6
At December 31, 2005	196	146	(11)	(12)	319

HK\$ million	The Group	
	2006	2005
Deferred tax liabilities recognised in the consolidated balance sheet	389	344
Less: Amount netted off against deferred tax assets recognised in the consolidated balance sheet	(14)	(25)
Balance at December 31,	375	319

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006 (Amount expressed in Hong Kong dollars unless otherwise stated)

28. DEFERRED TAXATION – CONTINUED

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

HK\$ million	The Group	
	2006	2005
Balance at January 1,	2	2
Charged to consolidated income statement (note 10)	(1)	—
Balance at December 31,	1	2

- c. The Group has unutilised estimated tax losses of HK\$136 million as at December 31, 2006 (2005: HK\$71 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.

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

HK\$ million	The Group	
	2006	2005
Profit before taxation	1,160	710
Adjustment for:		
Interest income	(376)	(222)
Finance costs	130	127
Gain on disposal of an investment property	—	(8)
Depreciation	15	11
Amortisation of leasehold land	5	—
Foreign exchange loss	2	—
Provision for impairment loss	25	6
Provision for doubtful debts	—	7
Value of employee services under employee share option scheme	2	5
Provision for rental guarantee	—	41
Surplus on revaluation of investment properties	(2)	(16)
Operating profit before changes in working capital	961	661

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006 (Amount expressed in Hong Kong dollars unless otherwise stated)

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT – CONTINUED

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

HK\$ million	The Group	
	2006	2005
Decrease/(Increase) in operating assets:		
- properties under development/held for sale	4,044	(838)
- interest in leasehold land	(260)	—
- other non-current receivables	(7)	—
- accounts receivable	(199)	(147)
- prepayments, deposits and other current assets	32	(16)
- sales proceeds held in stakeholders' accounts	821	125
- restricted cash	506	(428)
- amounts due from fellow subsidiaries	5	2
- amounts due from related companies	(3)	5
Increase/(Decrease) in operating liabilities:		
- accounts payable, accruals, other payables and deferred income	(491)	129
- provisions	(3,229)	323
- deposits received on sales of properties	(724)	822
- gross amounts due to customers for contract work	(4)	6
- amount due to ultimate holding company	(1,985)	(727)
- amounts due to fellow subsidiaries	(7)	2
- other long-term liabilities	(19)	(46)
Cash Used In Operations	(559)	(127)
Interest paid	(24)	(28)
Interest received	389	198
Tax paid		
- Hong Kong profits tax paid	(241)	(2)
- mainland China income tax paid	—	(1)
Net Cash (Outflow)/Inflow from Operating Activities	(435)	40

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT – CONTINUED

b. Analysis of cash and cash equivalents

HK\$ million	The Group	
	2006	2005
Cash and bank balances	3,444	4,686
Less: Short-term deposits	(173)	(655)
Less: Restricted cash	(826)	(1,332)
Cash and cash equivalents at December 31,	2,445	2,699

30. COMMITMENTS

a. Capital

HK\$ million	The Group	
	2006	2005
Authorised and contracted for	1,739	2,120
Authorised but not contracted for	659	772
	2,398	2,892

NOTES TO THE FINANCIAL STATEMENTS

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30. COMMITMENTS – CONTINUED

a. Capital – Continued

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

HK\$ million	The Group	
	2006	2005
Property development for Cyberport project (note (i))	2,181	2,735
Property development for other projects	171	141
Investment properties	37	—
Acquisition of property, plant and equipment	2	14
Others	7	2
	2,398	2,892

- (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.

30. COMMITMENTS – CONTINUED

b. Operating leases

(i) As at December 31, 2006, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

Land and buildings (as lessee)

HK\$ million	The Group	
	2006	2005
Within 1 year	7	6
After 1 year but within 5 years	12	2
	19	8

The leases typically run for an initial period of one to five years. None of these leases include contingent rentals.

Equipment (as lessee)

HK\$ million	The Group	
	2006	2005
Within 1 year	2	7
After 1 year but within 5 years	—	1
	2	8

The leases typically run for an initial period of one to five years. None of these leases include contingent rentals.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006 (Amount expressed in Hong Kong dollars unless otherwise stated)

30. COMMITMENTS – CONTINUED

b. Operating leases – Continued

- (ii) The Group leases out properties under operating leases. The leases typically run for an initial period of one to ten years. Two of the leases include contingent rental with reference to the turnover of the lessees' operations. As at December 31, 2006, the total future minimum lease receipts under non-cancellable operating leases were receivable as follows:

Land and buildings (as lessor)

HK\$ million	The Group	
	2006	2005
Within 1 year	178	196
After 1 year but within 5 years	281	332
After 5 years	1	45
	460	573

31. CONTINGENT LIABILITIES

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

HK\$ million	The Group	
	2006	2005
Performance guarantee	1	1

31. CONTINGENT LIABILITIES – CONTINUED

- a. Under the Property Sales and Purchase Agreement (note 13), on completion of the disposal of the PCCW Tower, 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 up to February 7, 2010. 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 had also made a provision of approximately HK\$41 million in relation to the rental guarantee over the remaining term of the guarantee period in 2005. These amounts have been included in “Other loss” in the consolidated income statement in 2005. The Group has updated the assessment on the rental guarantee as at December 31, 2006 and considered no further provision for rental guarantee is required.
- b. In relation to the novation of the convertible notes (tranche B note due 2014) by the Company to an indirectly wholly-owned subsidiary, effective from January 1, 2006, the Company has provided a guarantee to the noteholder in respect of the performance of the subsidiary’s obligation under the convertible notes (tranche B note due 2014) including the due and punctual payment of all sums under the convertible notes and the issuances of 672,222,222 shares of the Company at HK\$3.6 per share upon conversion of the convertible notes by the noteholder (note 21c). Such guarantee has no impact to the Group’s consolidated financial statements.

32. BANKING FACILITY

An indirectly 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 is to be secured by a bank deposit placed by the subsidiary from time to time to secure the amount of guarantee issued by the bank. No guarantee was issued by the bank under this banking facility as at December 31, 2006 and December 31, 2005.

NOTES TO THE FINANCIAL STATEMENTS

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33. MATERIAL RELATED PARTY TRANSACTIONS

The Group is controlled by PCCW which owns 61.66 per cent of the Company's shares. The remaining 38.34 per cent of the shares are widely held.

The following transactions were carried out with related parties:

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

HK\$ million	The Group	
	2006	2005
Sales of services:		
- Fellow subsidiaries		
Facility management services	45	47
Office leases rental	11	14
- Related companies		
Facility management services	24	23
Office leases rental	2	—
Other services	2	—
Purchases of services:		
- Fellow subsidiaries		
Corporate services	5	10
Office sub-leases	8	10
Information technology and other logistic services	14	27

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.

During the year, a fellow subsidiary of the Company paid approximately HK\$7 million (2005: HK\$1 million) to the Group for sharing the costs incurred for certain addition and alteration works conducted at a property development site where the fellow subsidiary is a tenant.

The related party transactions in respect of items 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

HK\$ million	The Group	
	2006	2005
Salaries and other short-term employee benefits	17	17
Bonuses	11	16
Directors' fee	1	1
Post-employment benefits	1	1
	30	35
Share-based compensation accounting adjustment (note (i))	1	4
	31	39

(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 and timing of exercise.

(ii) The remuneration of executive directors employed by PCCW, the ultimate holding company of the Group, is borne by PCCW except a bonus was paid to Hubert Chak by the Company in 2005.

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

HK\$ million	The Group	
	2006	2005
Receivables from related parties:		
- Fellow subsidiaries	5	10
- Related companies	5	2
	10	12
Payables to related parties:		
- Fellow subsidiaries	17	24

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33. MATERIAL RELATED PARTY TRANSACTIONS – CONTINUED

d. Loans from/amounts due to related parties

- (i) The movements of the amount due to ultimate holding company of HK\$1,195 million as at December 31, 2006 (2005: HK\$3,180 million) are as follows:

HK\$ million	The Group	
	2006	2005
Loans from/amount due to ultimate holding company:		
Balance at January 1,	3,180	7,528
Repayment of amount due to ultimate holding company	(1,985)	(727)
Conversion of convertible notes (tranche A note due 2011)	—	(1,170)
Interest expenses	—	24
Interest amount payable included in current liabilities	—	(12)
Interest paid	—	(12)
Provision for redemption premium	—	48
Convertible notes (tranche B note due 2014) assigned to a fellow subsidiary (note (ii)(a))	—	(2,499)
Balance at December 31,	1,195	3,180

The balance due to ultimate holding company as at December 31, 2006 is interest free and is recorded under the current liabilities in the consolidated balance sheet.

33. MATERIAL RELATED PARTY TRANSACTIONS – CONTINUED

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

(ii) The movements of the loan from a fellow subsidiary of HK\$2,548 million as at December 31, 2006 (2005: HK\$2,499 million) are as follows:

HK\$ million	The Group	
	2006	2005
Loan from a fellow subsidiary:		
Balance at January 1,	2,499	—
Interest expenses	24	—
Interest amount payable included in amounts due to fellow subsidiaries	(12)	—
Interest paid	(12)	—
Provision for redemption premium	49	—
Convertible notes (tranche B note due 2014) assigned from ultimate holding company (note a)	—	2,499
Balance at December 31,	2,548	2,499

- a. The convertible notes (tranche B note due 2014) with face value of HK\$2,420 million together with the provision for redemption premium of HK\$79 million was assigned, as directed by PCCW, to a wholly-owned subsidiary of PCCW in 2005.

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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. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's business units. The Board provides principle policies 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 dollar. 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. As US dollar is pegged to HK dollar, the Group does not expect any significant movements in the US dollar/HK dollar exchange rate. The Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

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 dollar.

(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 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, manages the concentrated 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 equivalents 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 risk 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.

FIVE YEAR FINANCIAL SUMMARY

Results

HK\$ million	2006	2005	2004	2003	2002
TURNOVER BY PRINCIPAL ACTIVITY					
Property development	6,953	4,821	5,415	4,111	—
Property investment	228	233	358	346	430
Other businesses	82	73	58	71	66
	7,263	5,127	5,831	4,528	496
Profit from operations	914	615	477	190	267
Interest income/(Finance costs), net	246	95	(164)	(160)	(112)
Profit before taxation	1,160	710	313	30	155
Taxation	(195)	(113)	39	(100)	(43)
Profit attributable to equity holders of the Company	965	597	352	(70)	112

Assets and Liabilities, as at December 31,

HK\$ million	2006	2005	2004	2003	2002
Total non-current assets	6,482	5,610	12,671	10,420	10,272
Total current assets	8,940	15,034	7,049	5,648	463
Total current liabilities	(4,878)	(11,320)	(7,533)	(5,714)	(3,453)
Net current assets/(liabilities)	4,062	3,714	(484)	(66)	(2,990)
Total assets less current liabilities	10,544	9,324	12,187	10,354	7,282
Total non-current liabilities	(3,861)	(3,567)	(7,746)	(10,291)	(7,813)
Net assets/(liabilities)	6,683	5,757	4,441	63	(531)

SCHEDULE OF PRINCIPAL PROPERTIES

Address	Gross site areas (sq.m.)	Gross floor areas (sq.m.)	Use	Category of the lease*	Percentage held by the Group
PROPERTIES HELD FOR INVESTMENT					
The People's Republic of China					
Pacific Century Place					
No.2A Worker's Stadium Road North, Chaoyang District, Beijing, the People's Republic of China					
	29,351				
Tower A		41,717	Office	Medium	100%
Tower B		20,104	Office	Medium	100%
Tower C		21,718	Residential	Long	100%
Tower D		10,946	Residential	Long	100%
Podium		75,431	Shopping centre	Medium	100%
Car park space		861 spaces	Car park	Medium	100%
Hong Kong					
Paramount Building					
No.12 Ka Yip Street, Chai Wan, Hong Kong					
	Not applicable	3,778 plus roof space 1,169	Workshop and ancillary for non-domestic use	Medium	100%
18th floor & 20th floor, roof & parking space Nos. 5, 6, 7, 8, lorry spaces No. L3, L4 & L5 on 1st floor					

* Lease term:

Long term: Lease not less than 50 years

Medium term: Lease less than 50 years but not less than 10 years

INVESTOR RELATIONS

LISTING

The Company's ordinary shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited and the stock code is 0432.

Any enquiries regarding the Company should be addressed to Investor Relations at the address provided on this page.

BOARD OF DIRECTORS

Executive Directors

Li Tzar Kai, Richard (*Chairman*)
Lee Chi Hong, Robert (*Chief Executive Officer*)
Alexander Anthony Arena
James Chan
Gan Kim See, Wendy

Independent Non-Executive Directors

Cheung Kin Piu, Valiant
Tsang Link Carl, Brian
Prof Wong Yue Chim, Richard, SBS, JP
Dr Allan Zeman, GBS, JP

COMPANY SECRETARY

Chan Ya Lai, Alice

REGISTERED OFFICE

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Bermuda

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PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

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Rosebank Centre
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Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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