Pacific Century Premium Developments
盈科大衍地產發展

STOCK CODE: 0432

ANNUAL REPORT 2007

The name **Pacific Century Premium Developments** signifies the company's sharp focus on the high-end segment of property markets in the region.

In Chinese, the name takes on a more aspirational meaning that invites reflection on the company's origins and progress to the present day, as well as its ambitions for the future.

The structure of the name contains a reference to rivers and streams leading to the sea. According to ancient literature, all such waterways share that destiny and tend to be individually active and dynamic in making their way to the coast, where they finally achieve success together.

The Chinese version of PCPD's name also symbolises vigorous growth into prosperity and can be likened to acorns developing into oak trees, which are well known for their towering size, solid stature and longevity. Interestingly, this analogy is very similar to the popular English saying: 'From tiny acorns do mighty oak trees grow'.

CONTENTS

Thai Muang Beach, Phang-nga, THAILAND

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 development rights for the Cyberport project, which is owned by the Government of the Hong Kong Special Administrative Region (HKSAR) and includes the prestigious Bel-Air residential development. The Group's first telephone exchange redevelopment project, named ONE Pacific Heights, is currently under way in the west of Central.

In mainland China, our development of luxury residential accommodation continues in Beijing's Chaoyang District next to the Group's premium-grade investment property, Pacific Century Place.

As a result of our ongoing exploration of development potential in Hong Kong, mainland China and other parts of Asia Pacific, the Group has drawn up long-term plans to develop a world-class all-seasons resort at Hokkaido, Japan, and a similar complex at Thai Muang Beach, Phang-nga in Thailand.

PROPERTY AND FACILITIES MANAGEMENT

Holding significant experience and expertise, the Group's Property and Facilities Management division specialises in providing the Group and external clients in Hong Kong and mainland China with facilities, property and asset management, as well as corporate services. These activities involve grade-A commercial, retail and industrial infrastructure, along with mission-critical telephone exchanges and luxury residential properties.

STATEMENT FROM THE CHAIRMAN

"OUR LONG-TERM PLANS TO CREATE DISTINCTIVE DEVELOPMENTS IN ASIA PACIFIC ARE EXEMPLIFIED BY PROJECTS TO DEVELOP LUXURY, ALL-YEAR-ROUND RESORTS IN JAPAN AND THAILAND."

As an international financial centre at the heart of Asia with mainland China as hinterland, Hong Kong enjoyed robust and broad-based economic growth in 2007 and continues to provide an unrivalled global investment platform and source of capital.

Despite this positive backdrop, deteriorating capital markets in the United States and Europe may have a slowing effect on global and local economic growth. Such turbulence will inevitably lead to a degree of uncertainty for Hong Kong's property sector.

PCPD's continued focus on long-term and extensive investment plans to create distinctive developments in Asia Pacific is exemplified by a project to develop a luxury, all-year-round resort in Hokkaido, Japan, plus a similar initiative at Thai Muang Beach, Phang-nga in Thailand.

In conclusion, I would like to express my sincere thanks to our directors, as well as our management team and all staff, for the productive and innovative roles they have played in PCPD's continued success. I also wish to thank our shareholders and partners for their valuable support.

Richard Li
Chairman

March 6, 2008

STATEMENT FROM THE CHIEF EXECUTIVE OFFICER

"PCPD IS WELL POSITIONED TO BECOME A NICHE PLAYER IN THE HIGH-QUALITY PREMIUM RESIDENTIAL MARKET."

I am pleased to report that the Group's consolidated turnover for the year ended December 31, 2007 was approximately HK$3,134 million, compared with HK$7,263 million for 2006. Consolidated net profit for 2007 reached HK$784 million, compared with the previous year's HK$965 million. Basic earnings per share for the year were 32.59 Hong Kong cents, compared with 40.16 Hong Kong cents for 2006. The decrease in turnover was mainly as a result of less revenue being recognised, as no major Bel-Air project completion occurred in 2007.

The board of directors ("the Board") does not recommend a final dividend for the year ended December 31, 2007.

Hong Kong's luxury residential market enjoyed a surge of interest last year – not only among local investors but also from mainland China and other parts of the world. As a result, the property market recorded a high volume of transactions.

Nearly all Bel-Air No.8 units in PCPD's flagship project were sold shortly after launch in 2007, leaving 27 Villa Bel-Air houses to be sold over the next two to three years.

We also made steady progress with our high-end, 39-storey residential project in the west of Central named ONE Pacific Heights, which is scheduled for completion in 2009 and will comprise 155 boutique apartments ranging from 500 to 1,000 square feet in size.

Our strategy to pursue premium property development opportunities in Hong Kong is challenged by a scarcity of large-scale sites holding suitable potential. This is evidenced by the small number of luxury sites selected for auction from the reserved list announced by the HKSAR Government over recent years. Despite this limited availability, PCPD is well positioned to become a niche player in high-quality, large-scale premium residential development in Hong Kong over the long term.

In mainland China, we made progress on a luxury residential project in Beijing's Chaoyang District that will involve development of approximately 180 units with a gross floor area of about 40,300 square metres. The site is strategically located adjacent to our premium-grade investment property, Pacific Century Place, and is scheduled for completion in 2010.

Austerity measures imposed by the PRC Government are expected to result in healthier growth trends in the long run, while the tightening credit environment will give rise to uncertainty for the property market in the near term. In addition, deterioration of the world's capital markets at the beginning of 2008 places a question mark over growth prospects for local and global economies.

Further afield, work continues on long-term projects to develop all-seasons resorts at Hokkaido, Japan and Thai Muang Beach, Phang-nga in Thailand, both of which require substantial capital investment.

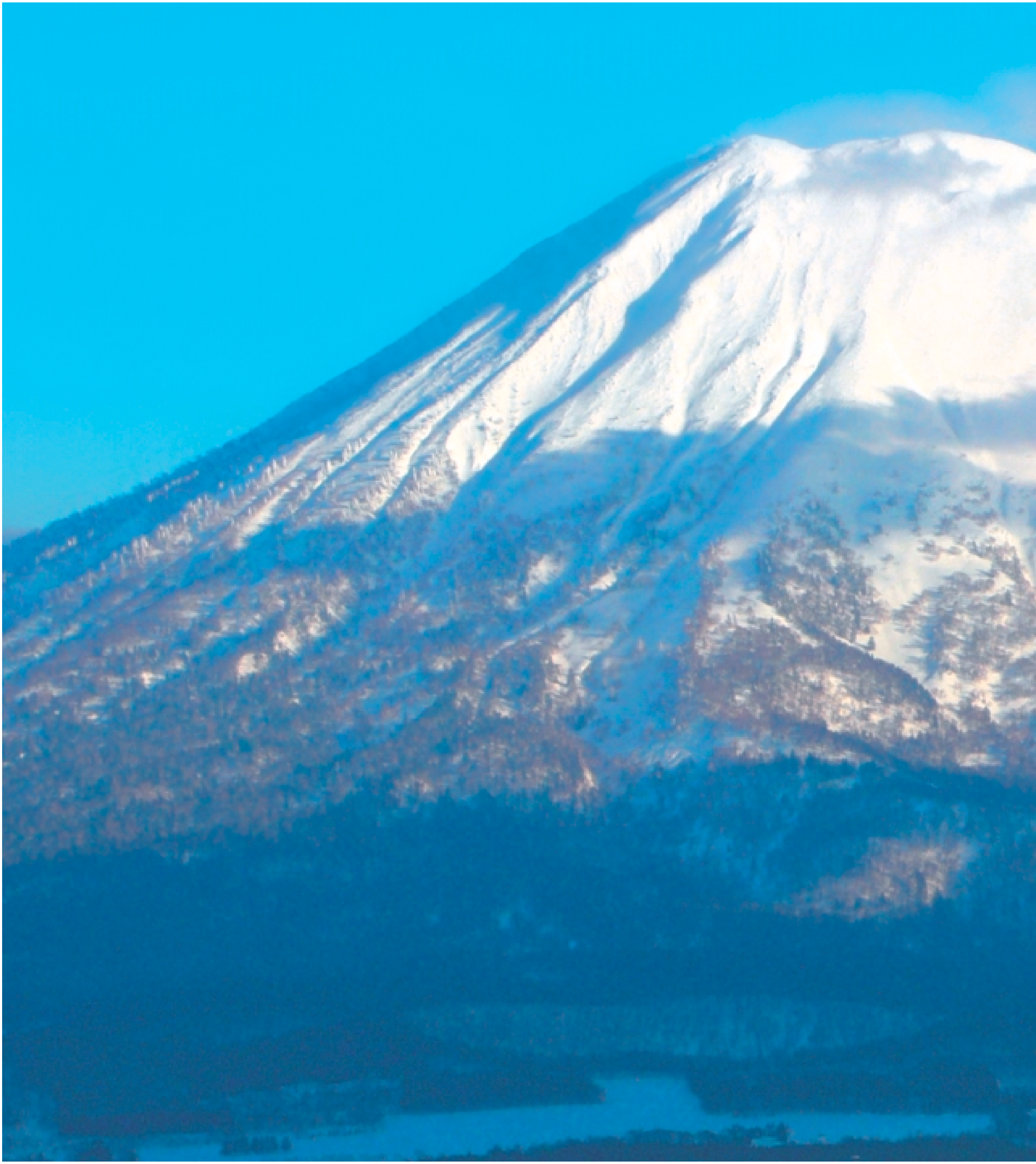
On February 12, 2008, Picville Investments Limited (an indirect wholly-owned subsidiary of PCCW) requested the Board to put forward the Proposal to Shareholders other than PCCW ("the Proposal") regarding a proposed privatisation of PCPD by way of a Scheme of Arrangement under Section 99 of the Companies Act of Bermuda whereby PCPD will become an indirect wholly-owned subsidiary of PCCW and PCPD will apply to the Stock Exchange for the withdrawal of the listing of the Group's shares on the Stock Exchange. Reasons for the Proposal, as noted in the announcement dated February 13, 2008, include:

- PCPD's share price has underperformed both the Hang Seng Index and the Hang Seng Property Index since the transfer of the PCCW Group's Cyberport development rights and various property interests into PCPD;
- PCPD's shares have been trading at a significant discount to its net asset value; and
- Low trading liquidity and volume of PCPD's shares.

Having reviewed the Proposal, the Board (other than the members of the independent board committee of PCPD) has agreed to put the Proposal forward to the Shareholders. The Proposal is conditional on certain conditions being fulfilled or waived on or before August 31, 2008 (or such date as Picville Investments Limited and PCPD may agree and the Supreme Court of Bermuda may allow), otherwise the Proposal will lapse.

Robert Lee
Chief Executive Officer

March 6, 2008



Niseko Ski Resort and Mt. Yotei, Hokkaido, JAPAN

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, 2007 follows below:

BUSINESS REVIEW

Property development

Revenue from the property development for 2007 amounted to approximately HK$2,800 million, compared with approximately HK$6,953 million for the previous year.

In June and December 2007, the seventh and eighth batch of net surplus proceeds from the Cyberport project, totalling HK$5,173 million, was allocated between the Government of the Hong Kong Special Administrative Region ("HKSAR") and the Group. The HKSAR Government received an aggregate amount of approximately HK$3,339 million, in accordance with the Cyberport Project Agreement, while the Group retained approximately HK$1,834 million.

The Group's redevelopment project, named ONE Pacific Heights and located in Wo Fung Street to the west of Central, will comprise 155 luxury boutique apartments, with completion scheduled for 2009.

Meanwhile in mainland China, progress has been made on the Group's prestigious residential project at No.4 Gong Ti Bei Lu in Beijing's Chaoyang District. With approximately 180 upmarket units planned, the project is planned for completion in 2010.

Property investment

Covering a gross floor area of more than 169,900 square metres, the Group's investment property, Pacific Century Place, is currently home to many multinational corporations, world-class retailers and residential tenants. Pacific Century Place enjoyed an average occupancy rate of 89 per cent for the year ended December 31, 2007.

The Group's gross rental income for 2007 amounted to approximately HK$235 million, compared with approximately HK$228 million for 2006.

Other businesses

Other businesses within the Group include the property management division, which provides property and facilities management, corporate services and asset management services, and ski operation. Revenue from other businesses for 2007 amounted to approximately HK$99 million, compared with approximately HK$82 million for the previous year.

FINANCIAL REVIEW

Review of results

The Group recorded a consolidated turnover of approximately HK$3,134 million for 2007, representing a decrease of 57 per cent compared with approximately HK$7,263 million for 2006. The decrease in turnover was mainly as a result of less revenue being recognised, as no major Bel-Air project completion occurred during the current year.

The Group's consolidated gross profit for 2007 was approximately HK$1,103 million, representing a decrease of 7 per cent from a gross profit of approximately HK$1,188 million for 2006. The decrease resulted from the decrease in turnover.

The Group recorded consolidated net profit of approximately HK$784 million for 2007, representing a decrease of 19 per cent compared with approximately HK$965 million for 2006. The decrease was attributable to a decrease in turnover and less interest income. Basic earnings per share during the year were 32.59 Hong Kong cents compared with 40.16 Hong Kong cents for 2006.

In accordance with applicable HKFRS issued by the HKICPA, revenue and profits from the sale of property development are recognised on completion of development and when significant risks and rewards of ownership have been transferred.

Current assets and liabilities

As at December 31, 2007, the Group held current assets of approximately HK$14,406 million (December 31, 2006: HK$8,940 million), mainly comprising properties under development/held for sale, cash and bank balances, sales proceeds held in stakeholders' accounts and restricted cash. The increase in current assets was attributable to an increase in properties under development/held for sale. Properties under development/held for sale in current assets were increased from approximately HK$1,521 million as at December 31, 2006 to approximately HK$9,133 million as at December 31, 2007. Cash and bank balances amounted to approximately HK$1,865 million as at December 31, 2007 (December 31, 2006: HK$2,618 million). Sales proceeds held in stakeholders' accounts were decreased by 30 per cent from HK$3,472 million as at December 31, 2006 to approximately HK$2,425 million as at December 31, 2007. Restricted cash decreased from HK$826 million as at December 31, 2006 to approximately HK$575 million as at December 31, 2007.

Total current liabilities as at December 31, 2007 amounted to approximately HK$8,592 million, compared with HK$4,878 million as at December 31, 2006.

Capital structure, liquidity and financial resources

As at December 31, 2007, total Group's borrowings amounted to approximately HK$2,596 million, representing a decrease of HK$1,147 million compared with total borrowings of HK$3,743 million as at December 31, 2006. As at December 31, 2007, all the Group's long-term borrowings were from PCCW group with the tranche B convertible note of HK$2,420 million carrying a fixed interest rate of 1 per cent per annum and becoming repayable at 120 per cent of the outstanding principal amount at maturity in 2014. Gearing ratio is not provided as all borrowings are from the Company's majority shareholder, PCCW Limited ("PCCW").

As at December 31, 2007, the Group held a banking facility of approximately HK$20 million for the purpose of providing a guarantee to the HKSAR Government in relation to the Cyberport project (December 31, 2006: HK$20 million).

The Group's business transactions, assets and liabilities were primarily denominated in Hong Kong dollars. Renminbi-denominated revenue represented approximately 7 per cent of the Group's total turnover, while PRC assets, Thailand assets and Japan assets represented approximately 25 per cent, 3 per cent and 2 per cent of the Group's total assets respectively.

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 US dollars, Renminbi and Thai baht. As the Group has certain investment in foreign operations, the net assets are exposed to foreign currency translation risks. The Group's currency exposure in respect of these operations is mainly from Renminbi, Thai baht and Japanese yen.

Cash used for operating activities in 2007 was approximately HK$572 million, while cash used for operating activities in 2006 was approximately HK$435 million.

Income tax

Income tax for 2007 was approximately HK$86 million compared with approximately HK$195 million for 2006. The reduction of income tax is mainly due to the reversal of deferred income tax liabilities.

Contingent liabilities

As at December 31, 2007, the Group had an outstanding performance guarantee of approximately HK$1 million granted to the HKSAR Government for certain entrustment works in relation to the Cyberport project (December 31, 2006: HK$1 million).

EMPLOYEES AND REMUNERATION POLICIES

As at December 31, 2007, the Group employed approximately 454 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.

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 does not recommend the payment of a final dividend for the year ended December 31, 2007 (2006: 5.5 Hong Kong cents per ordinary share).

An interim dividend of 1.5 Hong Kong cents (2006: 1.5 Hong Kong cents) per ordinary share, totalling approximately HK$36 million (2006: HK$36 million), was paid to shareholders of the Company on September 25, 2007.

CLOSURE OF REGISTER OF MEMBERS

The Company's register of members will be closed from May 7, 2008 to May 13, 2008, both days inclusive, during which period no transfer of shares will be effected. In order to be entitled to attend and vote at the forthcoming annual general meeting of the Company, all transfers, accompanied by 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 4:30 p.m. on May 6, 2008.

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.

OUTLOOK

The Hong Kong property market enjoyed significant growth in the last quarter of 2007, which was evidenced by a robust surge in transaction prices and volume of sales. Despite this positive backdrop, a volatile local stock market may give rise to uncertainty for Hong Kong's property market sector.

In addition, the deteriorating credit situation in the United States and Europe will continue to create economic ambiguity with potentially destabilising consequences for global capital flow. More aggressive austerity policies and a tightened credit environment in mainland China are expected in 2008. Nonetheless, the Group's long-term economic outlook remains cautiously optimistic.

Development plans for luxury resort complexes in Hokkaido, Japan and Thailand's Phang-nga represent long-term expansion prospects for the Company. In addition, our redevelopment project, named ONE Pacific Heights and located in Wo Fung Street to the west of Central, Hong Kong, is scheduled for completion in 2009.

On February 12, 2008, Picville Investments Limited (an indirect wholly-owned subsidiary of PCCW) requested the Board to put forward a proposal to shareholders of the Company other than those acting in concert with PCCW (the "Proposal") regarding a proposed privatisation of the Company by way of a scheme of arrangement under Section 99 of the Companies Act of Bermuda. It is intended that as a result of the Proposal becoming effective the Company will become an indirect wholly-owned subsidiary of PCCW and will apply to the Stock Exchange for the withdrawal of the listing of the Company's shares. Reasons for the Proposal, as stated in the announcement jointly issued by the Company and PCCW dated February 13, 2008, include:

- The Company's share price has underperformed both the Hang Seng Index and the Hang Seng Property Index since the transfer of the PCCW Group's Cyberport development rights and various property interests into the Company in 2004;
- The Company's shares have been trading at a significant discount to its net asset value; and
- Low trading liquidity and daily trading volume of the Company's shares.

Having reviewed the Proposal, the Board (other than the members of the independent board committee of the Company which has been established to advise the independent shareholders in connection with the Proposal) has agreed to put the Proposal forward to the relevant shareholders of the Company. The Proposal is conditional on certain conditions being fulfilled or waived on or before August 31, 2008 (or such date as Picville Investments Limited and the Company may agree and the Supreme Court of Bermuda may allow), otherwise it will lapse. It is anticipated that a scheme document containing further details of the Proposal and the scheme of arrangement will be despatched to the shareholders of the Company on or before March 31, 2008.

BOARD OF DIRECTORS

LI Tzar Kai, Richard
Chairman

Alexander Anthony ARENA
Deputy Chairman

LEE Chi Hong, Robert
Executive Director and Chief Executive Officer

LAM Yu Yee
Executive Director

James CHAN
Executive Director

GAN Kim See, Wendy
Executive Director

EXECUTIVE DIRECTORS

LI Tzar Kai, Richard

Chairman

Aged 41, is the chairman of Pacific Century Premium Developments Limited ("PCPD") and chairman of PCPD's Executive Committee. He is also the 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.

Alexander Anthony ARENA

Deputy Chairman

Aged 56, is the deputy chairman, an executive director of PCPD and a member of PCPD's Executive Committee. He is also group managing director of PCCW, the deputy chairman of PCCW's Executive Committee 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 to 1998. From 1993 to 1997, he was Director-General of Telecommunications at the Office of the Telecommunications Authority ("OFTA") of Hong Kong, as well as a member of the Broadcasting Authority of Hong Kong.

Before taking up his post at OFTA, Mr Arena was appointed by the Hong Kong Government to plan a reform program for the liberalisation of Hong Kong's telecommunications sector. Prior to his appointment to the Hong Kong Government, he served as an inaugural member of the Australian Telecommunications Authority for four years. Mr Arena has led an extensive career in public administration, specialising in high technology and infrastructure industries. From a practising radio/communications engineer to a 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 from University of New South Wales, Australia, with a bachelor's degree in electrical engineering. He completed an MBA at Melbourne University, Australia, and is a Fellow of the Hong Kong Institution of Engineers.

BOARD OF DIRECTORS

LEE Chi Hong, Robert

Aged 56, 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, he 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. He became a Notary Public in Hong Kong in 1991.

Mr Lee has 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.

Mr Lee graduated from Cornell University in 1975 with a bachelor's degree in Political Science.

LAM Yu Yee

Aged 46, is an executive director and the deputy chief executive officer of PCPD. He joined PCPD in September 2004 and became a director in September 2007.

Prior to joining PCPD Mr Lam was the chief financial officer of Asia Pacific Resources International Limited in Singapore in 2003 and was appointed as its president of China Operations in April 2004. Between 1999 to 2003, he was an executive director and the group chief financial officer of Sino Land. Prior to joining Sino Land, he had worked in various financial institutions for over ten years and had substantial experience in corporate finance and investment banking.

Mr Lam holds a Bachelor of Science degree in Industrial Engineering from the University of Hong Kong ("HKU") and a Master of Business Administration degree from the Manchester Business School.

James CHAN

Aged 54, is an executive director and the project director of PCPD. He became a director of PCPD in August 2005.

Mr Chan is responsible for the project execution of the Cyberport project and has overall responsibility for all aspects of the construction works. He is also responsible for carrying out various new property projects of PCPD and its subsidiaries in Hong Kong and the People's Republic of China ("PRC").

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 30 years.

Mr Chan holds a Bachelor of Arts in Architectural Studies degree from HKU 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.

Ms Gan 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, Ms Gan was head of sales and marketing at Swire Properties Limited, looking after that company's portfolio of residential, office and retail developments. She has more than 20 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 top honours at the HKMA/TVB Marketing Excellence Award for three 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 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. She 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 62, is an independent non-executive director of PCPD and chairman of PCPD's 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. He has extensive experience in assurance and corporate finance work, particularly in trading and manufacturing corporations in Hong Kong and the 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, he has provided financial advisory and due diligence services to foreign investors on investments in the PRC. He 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 three other listed companies in Hong Kong, Wing Shan International Limited, Dream International Limited and Dah Chong Hong Holdings Limited. In addition, he is currently an independent non-executive director of unlisted Bank of East Asia (China) Limited.

BOARD OF DIRECTORS

TSANG Link Carl, Brian

Aged 44, 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. He 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. He is also an independent non-executive director of CITIC Resources Holdings Limited and Walker Group Holdings Limited, both are companies listed on the Main Board of The Stock Exchange of Hong Kong Limited and a non-executive director of Midland IC&I 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 55, is an independent non-executive director of PCPD and chairman of PCPD's Audit Committee. He became a director of PCPD in July 2004.

Prof Wong currently serves as Deputy Vice-Chancellor of HKU. He has been active in advancing economic research on policy issues in Hong Kong and the PRC 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. He studied Economics at the University of Chicago and graduated with a Doctorate in Philosophy.

Dr Allan ZEMAN, GBS, JP

Aged 59, is an independent non-executive director of PCPD and chairman of PCPD's Nomination Committee. He became a director of PCPD in June 2004.

After spending more than 38 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. He 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.

Dr Zeman 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. He 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, 2007, except that the Chairman of the Board was unable to attend the Company's annual general meeting held on May 16, 2007 (which was required under the code provision E.1.2) as he had another engagement that was important to the Company's business.

MODEL CODE SET OUT IN APPENDIX 10 TO 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 no less exacting than those of 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, 2007.

BOARD OF DIRECTORS

As at the date of this report, the Board has 10 members, comprising 6 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 18 to 23 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, 2007, 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 Auditor's Report in page 50.

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. Li Tzar Kai, Richard
3. Prof Wong Yue Chim, Richard

During the year ended December 31, 2007, the Remuneration Committee has met on two occasions. The attendance of individual directors at committee meetings is set out in the table in page 30.

The following is a summary of the work performed by the Remuneration Committee during 2007:

A. reviewed the remuneration of executive directors and non-executive directors and recommended the same to the Board for approval;

B. reviewed a proposed commission incentive scheme for an executive director; and

C. 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 80 to 82.

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. The terms of reference are posted on the Company's website.

Current members of the Nomination Committee are:

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

During the year ended December 31, 2007, the Nomination Committee has met on two occasions. The attendance of individual directors at the committee meetings is set out in the table in page 30.

The following is a summary of the work performed by the Nomination Committee during 2007:

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;

B. advised the Board on the proposal to appoint a new executive director; and

C. 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 the fees for audit and non-audit services provided to the Group by the external auditors.

CORPORATE GOVERNANCE REPORT

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.

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, 2007, the Audit Committee has met on three occasions. The attendance of individual directors at the committee meetings is set out in the table in page 30.

The following is a summary of the work performed by the Audit Committee during 2007:

A. reviewed the financial statements for the year ended December 31, 2006 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 2007 annual general meeting;

C. reviewed the financial statements for the six months ended June 30, 2007 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, 2007;

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;

G. reviewed the fees for audit and non-audit services provided by external auditors; and

H. reviewed the Group's continuing connected transactions and external auditor's report thereon.

In addition, the Auditor Committee has also reviewed the financial statements for the year ended December 31, 2007 and the related annual results announcement and auditors' report, and recommended the same to the Board for approval.

EXTERNAL AUDITORS

The Group's external auditors are PricewaterhouseCoopers. During the year ended December 31, 2007, 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$4.6 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	1.6
Others	0.7
Total non-audit services fees	2.3

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 Board meetings and Board Committees meetings held during the year ended December 31, 2007 is set out below:

	Meetings Attended/Held in 2007				
Directors	**Board**	**Audit Committee**	**Nomination Committee**	**Remuneration Committee**	**AGM**
Executive directors					
Li Tzar Kai, Richard	4/4	—	2/2	2/2	0/1
Alexander Anthony Arena	4/4	—	—	—	1/1
Lee Chi Hong, Robert	4/4	—	—	—	1/1
Lam Yu Yee *(Note I)*	1/4	—	—	—	—
James Chan	4/4	—	—	—	1/1
Gan Kim See, Wendy	4/4	—	—	—	1/1
Hubert Chak *(Note II)*	—	—	—	—	—
Independent non-executive directors					
Cheung Kin Piu, Valiant	4/4	3/3	2/2	2/2	1/1
Tsang Link Carl, Brian	4/4	3/3	—	—	1/1
Prof Wong Yue Chim, Richard	3/4	3/3	2/2	2/2	1/1
Dr Allan Zeman	2/4	—	2/2	—	1/1

Notes:

I. Appointed as an executive director on September 1, 2007.

II. Resigned as an executive director on February 9, 2007.

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 128 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 2007, 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 hours amounting to over 7,700 hours. 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, supervisory and people management courses, legal knowledge lectures 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 2007 Sovereign Asian Art Auction Charity Dinner and the Southern District Arts Festival 2006/07. In addition, the Group jointly organised with the Southern District Council a pyrotechnic show at the Waterfront Park of Cyberport to celebrate the 10th anniversary of the establishment of the Hong Kong Special Administrative Region for the enjoyment of the community at large.

The Group has been a sponsor of the CyberRun for Rehab since its inception in 2004 which raises funds for the Hong Kong Society for Rehabilitation. The Group also sponsored the Cyberport Venture Capital Forum 2007 the focus of which was on how a business that is profitable, creative, sustainable and socially responsible at the same time can be built. The Group was again named by the Hong Kong Council of Social Service in their "Caring Company" award scheme in 2007.

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.

In 2007, the Group received the Bureau Veritas Certification for the ISO 9001:2000 standard for its continued satisfactory operation in respect of development of information technology and telecommunications information infrastructure, property development, project management and construction management, facilitation of construction and site support functions.

On behalf of the Board

CHAN Ya Lai, Alice
Company Secretary

Hong Kong, March 6, 2008

FINANCIAL INFORMATION

REPORT OF THE DIRECTORS

The directors of Pacific Century Premium Developments Limited (the "Company") present their annual report together with the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended December 31, 2007.

PRINCIPAL ACTIVITIES

The Group 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.

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, 2007 are set out in the accompanying consolidated income statement in page 52.

An interim dividend of 1.5 Hong Kong cents (2006: 1.5 Hong Kong cents) per ordinary share, totalling approximately HK$36 million (2006: HK$36 million), was paid to shareholders of the Company on September 25, 2007.

The Board does not recommend the payment of a final dividend for the year ended December 31, 2007 (2006: 5.5 Hong Kong cents per ordinary share).

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 126.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 19A to the consolidated financial statements.

FIXED ASSETS

Details of movements in investment properties, property, plant and equipment and properties held for development of the Group and the Company during the year are set out in notes 14 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 53 and note 26 to the consolidated financial statements respectively.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2007, the aggregate sales attributable to the Group's five largest customers represented approximately 21.3 per cent of the Group's total sales, while the sales to the Group's largest customer accounted for approximately 12.7 per cent of the Group's total sales. The aggregate purchases attributable to the Group's five largest suppliers represented approximately 47.1 per cent of the Group's total purchases, while the purchases from the Group's largest supplier accounted for approximately 38.5 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, except that Tsang Link Carl, Brian was a non-executive director and held certain share options of Midland IC&I Limited, which has the same holding company as one of the Group's five largest suppliers for the year.

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)*	
Alexander Anthony Arena *(Deputy Chairman)*	
Lee Chi Hong, Robert *(Chief Executive Officer)*	
Lam Yu Yee	(appointed on September 1, 2007)
James Chan	
Gan Kim See, Wendy	
Hubert Chak	(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

In accordance with bye-law 86(2) of the Company's bye-laws, Lam Yu Yee, who was appointed on September 1, 2007, shall retire at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

In addition, in accordance with bye-laws 87(1) and 87(2) of the Company's bye-laws, Alexander Anthony Arena shall retire by rotation at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

Furthermore, all non-executive Directors are appointed for a term of 2 years. As Prof Wong Yue Chim, Richard and Dr Allan Zeman were re-elected as Directors at the annual general meeting in 2006, 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 Lam Yu Yee, 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, 2007, 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, 2007, 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 which indirectly holds approximately 61.53 per cent of the issued share capital of the Company, as at December 31, 2007.

	Number of ordinary shares						
Name of director/ chief executive	Personal interests	Family interests	Corporate interests	Other interests	Number of underlying shares held under equity derivatives	Total	Percentage of issued share capital
Li Tzar Kai, Richard	—	—	250,109,824 *(Note I(a))*	1,650,518,335 *(Note I(b))*	—	1,900,628,159	28.04%
Alexander Anthony Arena	760,000	—	—	—	15,800,200 *(Note II)*	16,560,200	0.24%
Lee Chi Hong, Robert	992,600 *(Note IV(a))*	511 *(Note IV(b))*	—	—	6,000,000 *(Note III)*	6,993,111	0.10%
James Chan	—	—	—	—	210,000 *(Note III)*	210,000	0.003%
Gan Kim See, Wendy	—	—	—	—	420,000 *(Note III)*	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 87,018,177 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 87,018,177 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.

II. 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 III below.

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

III. 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, 2007, details of which are set out as follows (all dates are shown month/day/year):

Name of director/ chief executive	Date of grant	Vesting period	Exercisable period	Exercise price HK$	Number of options: Outstanding at 01.01.2007	Number of options: Outstanding at 12.31.2007
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
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
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

IV. (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.

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

2. Associated Corporation of the Company – Continued

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

As at December 31, 2007, 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.

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, 2007 are as follows:

1. Outstanding options at January 1, 2007 and at December 31, 2007

					Number of options	
Category of participant	**Date of grant**	**Vesting period**	**Exercisable period**	**Exercise price HK$**	**Outstanding at 01.01.2007**	**Outstanding at 12.31.2007**
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	5,000,000

Note: All dates are shown month/day/year

2. Options granted during the year ended December 31, 2007

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

REPORT OF THE DIRECTORS

SHARE OPTIONS AND DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES – CONTINUED

3. Options exercised during the year ended December 31, 2007

Category of participant	Date of grant	Vesting period	Exercisable period	Exercise price HK$	Number of shares acquired on exercise of options	Closing price of the shares immediately before the date on which the options was exercised HK$
Director of the Company's subsidiary	12.20.2004	Fully vested on 12.20.2004	12.20.2004 to 12.19.2014	2.375	5,000,000	2.460

Save as disclosed above, during the year under review, no share options were exercised.

4. Options cancelled or lapsed during the year ended December 31, 2007

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

At no time during the year under review 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, 2007, 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 *(Note I)*	89.45%
Desmarais Paul G.	Investment manager	169,013,000 *(Note II)*	7.02%
Nordex Inc.	Investment manager	169,013,000 *(Note II)*	7.02%
Gelco Enterprises Ltd.	Investment manager	169,013,000 *(Note II)*	7.02%
Power Corporation of Canada	Investment manager	169,013,000 *(Note II)*	7.02%
Power Financial Corporation	Investment manager	169,013,000 *(Note II)*	7.02%
IGM Financial Inc.	Investment manager	169,013,000 *(Note II)*	7.02%
Peter Cundill & Associates (Bermuda) Ltd.	Investment manager	124,952,000	5.17%
Daniel Saul Och	Interest of controlled corporations	121,447,152 *(Note III)*	5.04%
Och-Ziff Capital Management Group LLC	Interest of controlled corporations	121,447,152 *(Note III)*	5.04%
OZ Management, L.P. (formerly known as OZ Management, L.L.C.)	Investment manager	121,447,152 *(Note III)*	5.04%
ZFIC, Inc.	Beneficial owner	120,309,000 *(Note IV)*	5.00%
Artisan Partners Limited Partnership	Investment manager	120,309,000 *(Note IV)*	5.00%

REPORT OF THE DIRECTORS

INTERESTS AND SHORT POSITIONS IN SHARES OF SUBSTANTIAL SHAREHOLDERS – CONTINUED

1. Interests in the Company – Continued

Notes:

I. These interests represented (a) an interest in 1,481,333,333 shares in the Company held by Asian Motion Limited, a wholly-owned subsidiary of PCCW; and (b) 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.

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 169,013,000 shares of the Company held by Mackenzie Cundill Investment Management Ltd.

III. Each of Daniel Saul Och, Och-Ziff Capital Management Group LLC and Och-Ziff Holding Corporation has direct or indirect control over an investment manager OZ Management, L.P. and is therefore deemed to be interested in the 121,447,152 shares of the Company held in aggregate by OZ Management, L.P. and its wholly-owned subsidiaries and other entities controlled by it.

IV. ZFIC, Inc. owns 100% of Artisan Partners Limited Partnership and is therefore deemed to be interested in the 120,309,000 shares of the Company held by Artisan Partners Limited Partnership.

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

As at December 31, 2007, 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, 2007, 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, 2007, directors of the Company had the following interests in businesses 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 *(Note 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 *(Note II)*

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 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 and Japan. Alexander Anthony Arena was a director of the Private Companies during the year ended December 31, 2007 and has resigned from his directorship during the year.

Further, Li Tzar Kai, Richard and Alexander Anthony Arena are directors of PCRD. PCRD acts as an investment holding company of, among others, interests in PCCW and property and infrastructure and investment in the Asia-Pacific region, including 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, the Asia-Pacific region, including 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 PCRD 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 PCRD 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, 2006, 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 such transactions during the year are as follows:

1. Connected transactions

   On November 20, 2007, PCCW Solutions Limited ("PCCW Solutions"), a wholly-owned subsidiary of PCCW, accepted a letter of award from Hong Kong Cyberport Management Company Limited ("HKCMCL") in connection with the provision of relocation services of the Central Data Exchange from Level 2 of Cyberport 2 to the Network Operations Centre at Level 1 of Cyberport 2 at a fee of not exceeding HK$7.6 million. The transaction was between HKCMCL and PCCW Solutions but since the fee payable to PCCW Solutions was classified as an expense of the Cyberport project such fee would be borne by the Group and HKCMCL on an approximately 35:65 basis. Although the Group was not a party to the contract constituted by the letter of award, the transaction constituted a connected transaction of the Company. Details of the transaction were set out in the Company's announcement dated November 20, 2007.

2. Continuing Connected transactions

   I. As disclosed in the Company's announcement dated December 6, 2004, PCPD Facilities Management Limited ("PCPD FM") had 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, for a term of three years from December 6, 2004 to December 5, 2007. The service fee charged by PCPD FM for the period from January 1, 2007 to December 5, 2007 was approximately HK$51.7 million.

   II. As disclosed in the Company's announcement dated December 6, 2007, that day PCPD FM and PCCW Services entered into a renewal agreement to replace the agreement referred to in item I above (which expired on December 5, 2007) for the provision of 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, for a term of three years from December 6, 2007 to December 5, 2010. The service fee charged by PCPD FM for the period from December 6, 2007 to December 31, 2007 was approximately HK$4.5 million.

   III. As disclosed in the Company's announcement dated March 29, 2007, that day PCPD FM and Reach Networks (Hong Kong) Limited ("Reach Networks"), a wholly-owned subsidiary of Reach Limited, a 50:50 joint venture between Telstra Corporation Limited and PCCW, entered into two agreements for the provision of the facilities management services and lease and tenant management services to Reach Networks at a fee calculated in accordance with the agreements, subject to an annual cap of HK$25 million and HK$2.7 million for facilities management services and lease and tenant management services respectively, for a term of three years from April 1, 2007 to March 31, 2010, subject to the right of Reach Networks to terminate early at the end of the second year by giving 3 months' prior notice in writing to PCPD FM. The aggregate service fee charged by PCPD FM for the period from April 1, 2007 to December 31, 2007 was approximately HK$18.7 million.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS – CONTINUED

2. Continuing Connected transactions – Continued

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

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

Category of Services	Aggregate contract amount for the period from January 1, 2007 to May 31, 2007	Annual cap for the period from June 1, 2006 to May 31, 2007	Aggregate contract amount for the period from June 1, 2007 to December 31, 2007	Annual cap for the period from June 1, 2007 to May 31, 2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Telephony	0	2,000	0	4,000
Information Technology	2,005	7,500	1,636	8,000
Other Services	17	2,700	257	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 transactions referred to in items I, II and III 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, June 30, 2005, March 29, 2007 and December 6, 2007 respectively.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken by the Group in the normal course of business are set out in note 34 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 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 pages 24 to 32 of this annual report.

AUDITORS

The financial statements for the financial year ended December 31, 2007 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 that meeting.

On behalf of the Board

CHAN Ya Lai, Alice
Company Secretary

Hong Kong, March 6, 2008

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 (together, the "Group") set out on pages 52 to 125, which comprise the consolidated and company balance sheets as at December 31, 2007, 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.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company 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 of the Group as at December 31, 2007 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 6, 2008

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2007

HK$ million	Note(s)	2007	2006
Turnover	4, 5	**3,134**	7,263
Cost of sales		**(2,031)**	(6,075)
Gross profit		**1,103**	1,188
General and administrative expenses		**(356)**	(308)
Other income		**21**	57
Other losses	6	**(54)**	(25)
Interest income		**275**	376
Surplus on revaluation of investment properties		**14**	2
Finance costs	7	**(133)**	(130)
Profit before taxation	8	**870**	1,160
Income tax	11	**(86)**	(195)
Profit attributable to equity holders of the Company		**784**	965
Dividends			
Interim dividend	12	**36**	36
Final dividend proposed after the balance sheet date	12	**—**	132
Earnings per share (expressed in Hong Kong cents per share)			
Basic	13	**32.59 cents**	40.16 cents
Diluted	13	**29.78 cents**	35.47 cents
Dividends per share (expressed in Hong Kong cents per share)	12	**1.50 cents**	7.00 cents

The notes on pages 60 to 125 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2007

	2007						
HK$ million	Issued equity	Capital reserve	Currency translation reserve	Convertible notes reserve	Employee share-based compensation reserve	Retained earnings	Total
Balance at January 1, 2007	4,309	(565)	199	769	17	1,954	6,683
Exchange differences	—	—	313	—	—	—	313
Net income recognised directly in equity	—	—	313	—	—	—	313
Profit for the year	—	—	—	—	—	784	784
Total recognised income for 2007	—	—	313	—	—	784	1,097
Issue of new shares for exercise of share options (note 23(d))	12	—	—	—	—	—	12
2006 final dividend paid	—	—	—	—	—	(132)	(132)
2007 interim dividend paid	—	—	—	—	—	(36)	(36)
Balance at December 31, 2007	4,321	(565)	512	769	17	2,570	7,624

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2007

	2006						
HK$ million	Issued equity	Capital reserve	Currency translation reserve	Convertible notes reserve	Employee share-based compensation reserve	Retained earnings	Total
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

The notes on pages 60 to 125 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2007

HK$ million	Note(s)	2007	2006
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	14	**4,153**	3,861
Property, plant and equipment	15	**60**	43
Properties under development	16(a)	**795**	1,979
Properties held for development	16(b)	**816**	—
Interest in leasehold land	17	**—**	502
Goodwill	18	**93**	81
Other receivables		**26**	15
Deferred income tax assets	28(b)	**10**	1
		5,953	6,482
Current assets			
Properties under development/held for sale	16(a)	**9,133**	1,521
Sales proceeds held in stakeholders' accounts	20(a)	**2,425**	3,472
Restricted cash	20(b), 29(b)	**575**	826
Trade receivables, net	20(c)	**332**	438
Prepayments, deposits and other current assets		**63**	55
Amounts due from fellow subsidiaries	34(c)	**10**	5
Amounts due from related companies	34(c)	**3**	5
Short-term deposits	29(b)	**106**	173
Cash and cash equivalents	29(b)	**1,759**	2,445
		14,406	8,940

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2007

HK$ million	Note(s)	2007	2006
Current liabilities			
Current portion of long-term borrowings	21	**24**	24
Trade payables	20(d)	**114**	93
Accruals, other payables and deferred income	20(e)	**1,272**	1,451
Derivative financial instrument		**7**	—
Deposits received on sales of properties		**1,944**	98
Gross amounts due to customers for contract works	20(f)	**7**	7
Amounts due to fellow subsidiaries	34(c)	**15**	17
Amount due to ultimate holding company	34(d)	—	1,195
Amount payable to the Government of the HKSAR under the Cyberport Project Agreement	22	**5,178**	1,914
Current income tax liabilities		**31**	79
		8,592	4,878
Net current assets		**5,814**	4,062
Total assets less current liabilities		**11,767**	10,544
Non-current liabilities			
Long-term borrowings	21	**1,989**	1,880
Amount payable to the Government of the HKSAR under the Cyberport Project Agreement	22	**1,741**	1,591
Deferred income tax liabilities	28(a)	**326**	375
Other long-term liabilities		**87**	15
		4,143	3,861
Net assets		**7,624**	6,683

HK$ million	Note(s)	2007	2006
REPRESENTING:			
Issued equity	23	**4,321**	4,309
Reserves		**3,303**	2,374
		7,624	6,683

Approved by the board of directors on March 6, 2008 and signed on behalf of the Board by

Lee Chi Hong, Robert
Director

Alexander Anthony Arena
Director

The notes on pages 60 to 125 form part of these financial statements.

BALANCE SHEET

AS AT DECEMBER 31, 2007

HK$ million	Note	2007	2006
ASSETS AND LIABILITIES			
Non-current assets			
Investment in subsidiaries	19	**2,870**	2,870
Current assets			
Amounts due from subsidiaries	19	**2,913**	2,423
Current liabilities			
Accruals and other payables		**2**	1
Net current assets		**2,911**	2,422
Total assets less current liabilities		**5,781**	5,292
Net assets		**5,781**	5,292
REPRESENTING:			
Share capital	23(b)	**241**	240
Reserves	26	**5,540**	5,052
		5,781	5,292

Approved by the board of directors on March 6, 2008 and signed on behalf of the Board by

Lee Chi Hong, Robert
Director

Alexander Anthony Arena
Director

The notes on pages 60 to 125 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2007

HK$ million	Note	2007	2006
NET CASH USED IN OPERATING ACTIVITIES	29(a)	**(572)**	(435)
INVESTING ACTIVITIES			
Acquisition of ski operation of a subsidiary, net of cash acquired	33	**(23)**	—
Payment for investment properties	14	**(4)**	(127)
Purchase of property, plant and equipment		**(18)**	(20)
Decrease in bank deposits with maturity more than three months		**67**	482
Instalments received from the disposal of unconsolidated subsidiaries		**10**	10
NET CASH GENERATED FROM INVESTING ACTIVITIES		**32**	345
FINANCING ACTIVITIES			
Proceeds from shares issued under share option scheme		**12**	—
Dividends paid		**(168)**	(168)
NET CASH USED IN FINANCING ACTIVITIES		**(156)**	(168)
DECREASE IN CASH AND CASH EQUIVALENTS		**(696)**	(258)
Exchange difference		**10**	4
CASH AND CASH EQUIVALENTS			
Balance at January 1,		**2,445**	2,699
Balance at December 31,	29(b)	**1,759**	2,445

The notes on pages 60 to 125 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007 (Amount expressed in Hong Kong dollars unless otherwise stated)

1. GENERAL INFORMATION

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

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, 2007, 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 52 to 125 were approved by the board of directors (the "Board") on March 6, 2008.

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 consolidated financial statements for the year ended December 31, 2007 comprise the Company and its subsidiaries.

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 (including derivative financial instruments) 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.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

b. Basis of preparation of the financial statements - Continued

Standards, amendments and interpretations effective from January 1, 2007

HKFRS 7 and HKAS 1 Amendment - Financial Instruments: Disclosures and Presentation of Financial Statements - Capital Disclosures

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, Financial instruments: Disclosure and presentation. These disclosures are provided throughout these financial statements, in particular in note 35.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in note 36.

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

Standards, amendments and interpretations effective from January 1, 2007 adopted by the Group but have no significant impact on the Group's financial statements

HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007 (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

The following standards and interpretations to existing standards have been published but are not yet effective for the year ended December 31, 2007 and which the Group has not early adopted:

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)
HK(IFRIC)-Int 13	Customer Loyalty Programmes (effective for annual periods beginning on or after July 1, 2008)
HK(IFRIC)-Int 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after January 1, 2008)
HKFRS 8	Operating Segments (effective for annual periods beginning on or after January 1, 2009)
HKAS 23 (Revised)	Borrowing Costs (effective for annual periods beginning on or after January 1, 2009)
HKAS 1 (Revised)	Presentation of Financial Statements (effective for annual periods beginning on or after January 1, 2009)

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.

c. Subsidiaries

Subsidiaries are all entities (including special purpose entities) that are 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.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of identifiable net assets acquired is recorded as goodwill (note 2(j)).

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, 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.

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 reward of ownership have been transferred. Deposits and instalments received from purchasers prior to this stage are included in current liabilities.

If the pre-completion contracts for the sale of development properties for which legally binding unconditional sales contracts were entered into before January 1, 2005, as permitted by the transitional provisions of HK-Int 3 "Revenue - Pre-completion Contracts for the Sale of Development Properties", revenue 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

d. Revenue recognition - Continued

(iv) Service income

Service income is recognised when services are rendered to customers.

(v) 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. Freehold land, property, plant and equipment and depreciation

Freehold land is stated at cost less impairment losses (note 2(h)) as the land has an indefinite useful life and are not subject to depreciation.

Property, plant and equipment is 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:

Buildings and structures	5 to 50 years
Other plant and equipment	2 to 12 years

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

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 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.

Subsequent costs are included in 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.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

h. Impairment of investment in subsidiaries and non-financial assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— interest in leasehold land;

— interest in freehold land;

— property, plant and equipment;

— properties held for/under development;

— investment in subsidiaries; and

— goodwill.

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

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and its value in use. Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(ii) Reversals of impairment losses

An impairment loss of an asset other than goodwill is reversed if there has been a change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

i. Properties held for and under development for sale

Properties held for development represent interests in land held for future development which are stated in the balance sheet at cost less impairment losses (note 2(h)).

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 expenditures 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 sale 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 sale 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, 2007 (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 acquiree's net identifiable assets and liabilities at the date of acquisition.

Goodwill is stated at cost less accumulated impairment losses (note 2(h)). Goodwill is allocated to cash-generating units for the purpose of impairment testing and is tested annually for 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. Construction contracts

The accounting policy for contract revenue is set out in note 2(d)(iii) above and construction costs are recognised when incurred. When the outcome of a construction contract can be estimated reliably, contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent that it is probable the contract costs incurred will be recoverable and contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profits less recognised losses, estimated value of work performed including progress billing, and are presented in the balance sheet as the "Gross amounts due from customers for contract work" (as an asset) or the "Gross amounts due to customers for contract work" (as a liability), as applicable. Progress billings for work performed on a contract not yet paid by customers are included in the balance sheet under "Trade receivables".

l. Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. 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. Trade and other receivables are included in trade receivables and prepayments, deposits and other current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of 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. Significant financial difficulties of the debtor, probably that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivables is impaired. 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 original effective interest rate. The amount of the provision is recognised in the income statement. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

m. 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.

n. Derivative financial instruments

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.

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at each balance sheet date. The gain or loss on re-measurement to fair value is recognised immediately in the income statement.

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 rental guarantee contract are recognised in the income statement.

o. 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 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".

p. Trade and other payables

Trade and other payables are recognised 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.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

q. 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 probable 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.

r. 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.

s. Income tax

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

(i) Current income 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 income 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 income tax assets also arise from unused tax losses and unused tax credits.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

s. Income tax - Continued

All deferred income tax liabilities are recognised while deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

The amount of deferred income 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 income tax assets and liabilities are not discounted.

t. Employee benefits

(i) Salaries, annual bonuses, annual leave entitlements, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, provisions are made for the estimated liability as a result of services rendered by employees up to the balance sheet date.

(ii) Defined 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 expenses in the income statement in the period to which the contributions relate. Under the defined contribution retirement schemes, 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.

(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 earnings). 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.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

u. Foreign currency translation

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 dollar, which is the Company's functional and presentation currency.

Foreign currencies transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in the income statement.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of transactions. Balance sheet items of foreign operations, including goodwill arising on consolidation of foreign operations acquired, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in the currency translation reserve under equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to currency translation reserve under equity. On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in the currency translation reserve under equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

v. Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing particular products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), and which is subject to risks and returns that are different from those of other segments.

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

w. Dividend distribution

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

3. CRITICAL ACCOUNTING ESTIMATES AND 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) Sales recognition on properties sold

The Group has made judgement on when significant risks and reward of ownership of properties are transferred to purchasers. When significant risks and reward of ownership of properties are transferred to purchasers, the Group recognised revenue in respect of the properties sold. The judgement on the date of 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) Purchase price allocation

The fair value of the assets of the subsidiary acquired at the acquisition date was determined by management's assessment of the fair value of the assets. A portion of the purchase price is allocated to the business of the acquired subsidiary based on the projected cash flow forecast of the business. Had management determined that a different fair value of the assets of the subsidiary acquired at the acquisition date and different assumptions used for the preparation of the cash flow forecast of the business of the acquired subsidiary, this would have caused different amount of asset value and goodwill at the date of acquisition.

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 amount payable to the Government of the HKSAR under the Cyberport Project Agreement

Pursuant to the Cyberport Project Agreement, the Government of the Hong Kong Special Administrative Region ("HKSAR") is entitled to receive approximately 65 per cent of the surplus cash flow earned from the Cyberport project. The amounts paid and payable to the Government of the HKSAR are part of the Group's costs of developing the Cyberport project.

The amount payable to the Government of the HKSAR is a financial liability that is measured at amortised cost. Borrowing costs associated with this liability are capitalised as part of the property under development.

The estimated cost of developing the Cyberport project, including construction costs and the amounts paid and payable to the Government of the HKSAR, is allocated to cost of properties sold on a systematic basis over the life of the project using a relative value approach. This approach considers the value of development costs attributable to phases for which revenue has been recognised to date relative to the total expected value of development costs for the development as a whole. The revision of estimates of these relative values during 2007 has resulted in the costs of properties sold recorded in the year ended December 31, 2007 being reduced by HK$388 million.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007 (Amount expressed in Hong Kong dollars unless otherwise stated)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS - CONTINUED

(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, 2007, the fair value of the investment properties was HK$4,153 million.

(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, management determines 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, 2007, the provision for rental guarantee was HK$9 million (see note 31(i) for further details).

(iv) Derivative 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.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS - CONTINUED

(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, 2007, the total deferred tax assets recognised was HK$32 million, with HK$22 million deferred tax assets netted off against the deferred tax liabilities recognised in the consolidated balance sheet (notes 28(a) and 28(b)).

4. TURNOVER

Turnover comprises revenues recognised in respect of the following businesses:

	The Group	
HK$ million	**2007**	2006
Property development	**2,800**	6,953
Property investment	**235**	228
Other businesses	**99**	82
	3,134	7,263

5. SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segments. 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 the Asia-Pacific region.

— Property investment is the investment in properties in Hong Kong and Beijing.

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

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007 (Amount expressed in Hong Kong dollars unless otherwise stated)

5. SEGMENT INFORMATION - CONTINUED

a. Business segments - Continued

	Property development		Property investment		Other businesses		Elimination		Consolidated	
HK$ million	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
REVENUE										
External revenue	**2,800**	6,953	**235**	228	**99**	82	**—**	—	**3,134**	7,263
Inter-segment revenue	**—**	—	**—**	—	**91**	36	**(91)**	(36)	**—**	—
Total revenue	**2,800**	6,953	**235**	228	**190**	118	**(91)**	(36)	**3,134**	7,263
RESULT										
Segment results	**642**	822	**157**	143	**—**	2	**—**	—	**799**	967
Unallocated corporate expenses									**(71)**	(53)
Interest income									**275**	376
Finance costs									**(133)**	(130)
Profit before taxation									**870**	1,160
Income tax									**(86)**	(195)
Profit attributable to equity holders of the Company									**784**	965

5. SEGMENT INFORMATION - CONTINUED

a. Business segments - Continued

	Property development		Property investment		Other businesses		Elimination		Consolidated	
HK$ million	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
OTHER INFORMATION										
Capital expenditure incurred during the year	—	12	16	134	6	1	—	—	22	147
Depreciation and amortisation	8	6	10	10	4	4	—	—	22	20
Surplus on revaluation of investment properties credited to the consolidated income statement	—	—	14	2	—	—	—	—	14	2
Impairment loss recognised in the consolidated income statement	—	—	—	—	11	25	—	—	11	25
Value of employee services under employee share option scheme	—	—	—	—	—	2	—	—	—	2
ASSETS										
Segment assets	14,273	8,801	4,487	4,014	81	39	—	—	18,841	12,854
Unallocated corporate assets									1,518	2,568
Consolidated total assets									20,359	15,422
LIABILITIES										
Segment liabilities	10,187	6,286	384	431	56	36	—	—	10,627	6,753
Unallocated corporate liabilities									2,108	1,986
Consolidated total liabilities									12,735	8,739

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5. SEGMENT INFORMATION - CONTINUED

b. Geographical segments

The Group's businesses are managed and operated in the Asia-Pacific region. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of operations. Segment assets and capital expenditure are based on the geographical location of the assets.

	Revenue from external customers		Segment assets		Capital expenditure incurred during the year	
HK$ million	**2007**	2006	**2007**	2006	**2007**	2006
Hong Kong	**2,894**	7,038	**14,311**	10,890	**5**	13
Mainland China	**232**	225	**5,085**	4,532	**14**	134
Japan	**8**	—	**317**	—	**3**	—
Thailand	**—**	—	**646**	—	**—**	—
	3,134	7,263	**20,359**	15,422	**22**	147

6. OTHER LOSSES

	The Group	
HK$ million	**2007**	2006
Provision of rental guarantee	**36**	—
Impairment loss	**11**	25
Unrealised loss on derivative financial instrument	**7**	—
	54	25

7. FINANCE COSTS

	The Group	
HK$ million	**2007**	2006
Interest expenses:		
Convertible notes wholly repayable after 5 years (note 21)	**133**	125
Other finance costs	**—**	5
	133	130

8. PROFIT BEFORE TAXATION

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

	The Group	
HK$ million	**2007**	2006
Crediting:		
Gross rental income from investment properties	**235**	228
Other rental income	**3**	3
Less: outgoings	**(18)**	(16)
Surplus on revaluation of investment properties	**14**	2
Charging:		
Cost of properties sold	**1,932**	5,987
Depreciation, included in:		
- cost of sales	**—**	1
- general and administrative expenses	**15**	14
Amortisation of leasehold land	**7**	5
Staff costs, included in:		
- cost of sales	**70**	68
- general and administrative expenses	**119**	91
Contributions to defined contribution retirement scheme, included in:		
- cost of sales	**4**	4
- general and administrative expenses	**2**	5
Auditors' remuneration	**2**	2
Operating lease rental		
- land and buildings	**4**	4
- equipment	**3**	3
Value of employee services under employee share option scheme	**—**	2
Net foreign exchange loss	**4**	3

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007 (Amount expressed in Hong Kong dollars unless otherwise stated)

9. DIRECTORS' EMOLUMENTS

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

	The Group				The Group			
	2007				2006			
HK$ '000	**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**	**19,850**	**988**	—	11,000	7,270	904
Alexander Anthony Arena (note i)	—	—	—	—	—	—	—	—
Hubert Chak (note i, ii)	—	—	—	—	—	—	—	—
James Chan	—	**3,183**	**1,450**	**284**	—	3,068	1,600	258
Gan Kim See, Wendy	—	**3,183**	**5,500**	**334**	—	3,068	2,565	322
Lam Yu Yee (note iii)	—	**4,386**	**4,500**	**576**	—	—	—	—
Independent Non-executive Directors								
Ronald James Blake, OBE, JP (note iv)	—	—	—	—	42	—	—	—
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 v)	**200**	—	—	—	175	—	—	—
	750	**21,752**	**31,300**	**2,182**	767	17,136	11,435	1,484

9. DIRECTORS' EMOLUMENTS - CONTINUED

a. Cash and cash equivalents paid/payable 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.

ii. Resigned as executive director on February 9, 2007.

iii. Appointed as executive director on September 1, 2007. The emoluments showing in this table are for full year figure.

iv. Resigned as independent non-executive director on March 17, 2006.

v. Re-designated as independent non-executive director effective July 18, 2006.

vi. The total directors' emoluments for the year ended December 31, 2007, including the amortised share-based compensation, were HK$56 million (2006: HK$31 million).

vii. No directors waived the right to receive emoluments during the current and prior years.

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.

	The Group 2007							
	Grant date	Exercise price of share options HK$	Number of share options/ shares outstanding at beginning of year	Number of share options exercised/ shares transferred	Number of share options/ shares outstanding at end of year	Number of share options vested	Share-based compensation charged to income statement (note ii) HK$'000	Realised benefits (note i) HK$'000
Executive Directors								
Lee Chi Hong, Robert	July 25, 2003	4.35	5,000,000	—	5,000,000	5,000,000	—	—
	February 8, 2005	4.475	1,000,000	—	1,000,000	1,000,000	26	—
James Chan	July 25, 2003	4.35	210,000	—	210,000	210,000	—	—
Gan Kim See, Wendy	July 25, 2003	4.35	240,000	—	240,000	240,000	—	—
							26	—

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007 (Amount expressed in Hong Kong dollars unless otherwise stated)

9. DIRECTORS' EMOLUMENTS - CONTINUED

b. Share-based compensation - Continued

The Group

2006

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

i. Realised benefits

No director exercised share options in 2007 and 2006. The realised benefits represent the market value of the relevant shares at the date of transfer.

ii. Share-based compensation charged to income statement

Share-based compensation is a trinomial option pricing model calculation of the fair value of share options at the date of grant. Share-based compensation is amortised in the income statement over the vesting period of the related share options. These values do not represent realisable gains which are affected by a combination of a number of factors, including, performance of PCCW's share price, vesting period and timing of exercise. The details of these share options are disclosed in note 25.

10. FIVE TOP-PAID EMPLOYEES

a. Of the five highest paid individuals in the Group, four (2006: three) are directors whose emoluments are set out in note 9. Details of the emoluments of the remaining highest paid individual (2006: two) are as follows:

	The Group	
HK$ million	**2007**	2006
Salaries and other short-term employee benefits	—	8
Bonuses (note i)	**13**	2
Post-employment benefits	—	1
	13	11

i. In 2007, a bonus was paid by the Group to a director of a subsidiary whose other emoluments is borne by PCCW, the ultimate holding company of the Group.

b. The emoluments of the remaining individual (2006: two) are within the emolument ranges as set out below:

	The Group Number of individuals	
	2007	2006
HK$4,200,001 - HK$4,300,000	—	1
HK$6,000,001 - HK$6,100,000	—	1
HK$12,900,001 - HK$13,000,000	**1**	—
	1	2

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

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007 (Amount expressed in Hong Kong dollars unless otherwise stated)

11. INCOME TAX

Hong Kong profits tax has been provided at the rate of 17.5 per cent (2006: 17.5 per cent) on the estimated assessable profits for the year.

Taxation for overseas subsidiaries has been calculated on the estimated assessable profits for the year at the rates prevailing in the respective jurisdiction.

	The Group	
HK$ million	**2007**	2006
Hong Kong profits tax		
– Provision for current year	**125**	146
– Under/(Over) provision in respect of prior years	**1**	(1)
Mainland China income tax		
– Provision for current year	**39**	4
– Under provision in respect of prior years	**2**	1
Deferred taxation relating to the origination and reversal of temporary differences (note 28)	**(81)**	45
	86	195

a. On March 16, 2007, the National People's Congress approved the Corporate Income Tax Law of The People's Republic of China (the "new CIT Law"). The new CIT Law reduces the corporate income tax rate applicable to the Group's operations in mainland China from 33 per cent to 25 per cent with effect from January 1, 2008. Accordingly, the deferred income tax liabilities for the Group's operations in mainland China as at December 31, 2007 is provided at the rate of 25 per cent on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases. The effect on the change in corporate income tax rate applicable to the Group's operations in mainland China was recognised in the consolidated income statement for the current year.

11. INCOME TAX - CONTINUED

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

	The Group	
HK$ million	**2007**	2006
Profit before taxation	**870**	1,160
Notional tax on profit before taxation, calculated at 17.5 per cent	**152**	203
Effect of different tax rate of subsidiaries operating in mainland China	**24**	23
Reversal of deferred taxation due to change of tax rate in mainland China	**(90)**	—
Income not subject to taxation	**(47)**	(65)
Expenses not deductible for taxation purposes	**33**	32
Tax losses not recognised	**11**	2
Under provision in respect of prior years	**3**	—
Taxation charge	**86**	195

12. DIVIDENDS

	The Group	
HK$ million	**2007**	2006
Interim dividend of 1.5 Hong Kong cents per ordinary share (2006: 1.5 Hong Kong cents per ordinary share) paid	**36**	36
Final dividend proposed after the balance sheet date (2006: 5.5 Hong Kong cents per ordinary share)	**—**	132
	36	168

The final dividend proposed after the balance sheet date for 2006 has not been recognised as a liability as at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007 (Amount expressed in Hong Kong dollars unless otherwise stated)

13. EARNINGS PER SHARE

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

	2007	2006
Earnings (HK$ million)		
Earnings for the purpose of calculating the basic earnings per share	784	965
Finance costs on convertible notes	133	125
Earnings for the purpose of calculating the diluted earnings per share	917	1,090

	2007	2006
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating the basic earnings per share	2,405,596,859	2,402,459,873
Effect of dilutive potential ordinary shares on conversion of convertible notes and employee share option	672,414,919	672,222,222
Weighted average number of ordinary shares for the purpose of calculating the diluted earnings per share	3,078,011,778	3,074,682,095

14. INVESTMENT PROPERTIES

	The Group	
HK$ million	**2007**	2006
Balance at January 1,	**3,861**	3,607
Additions	**4**	127
Surplus on revaluation of investment properties	**14**	2
Exchange differences	**274**	125
Balance at December 31,	**4,153**	3,861

Investment properties were revalued as at December 31, 2007 by independent valuers. The basis of valuation for investment properties was open market value. The fair value gain during the year amounted to HK$14 million (2006: HK$2 million) was credited to the consolidated income statement as "Surplus on revaluation of investment properties".

In the consolidated income statement, cost of sales includes HK$18 million (2006: HK$16 million) direct operating expenses that generate rental income while HK$3 million (2006: HK$2 million) direct operating expenses relating to investment properties that were unlet.

The carrying amount of investment properties is analysed as follows:

	The Group	
HK$ million	**2007**	2006
Held in Hong Kong		
On medium-term lease (10-50 years)	**49**	35
Held in mainland China		
On long lease (over 50 years)	**769**	730
On medium-term lease (10-50 years)	**3,335**	3,096
	4,153	3,861

NOTES TO THE FINANCIAL STATEMENTS

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15. PROPERTY, PLANT AND EQUIPMENT

	The Group			
HK$ million	Freehold land	Buildings and structures	Other plant and equipment	Total
At January 1, 2006				
At cost	—	—	67	67
Less: Accumulated depreciation	—	—	(30)	(30)
Net book value	—	—	37	37
Net book value at January 1, 2006	—	—	37	37
Additions	—	—	20	20
Depreciation	—	—	(15)	(15)
Exchange differences	—	—	1	1
Net book value at December 31, 2006	—	—	43	43
At December 31, 2006				
At cost	—	—	89	89
Less : Accumulated depreciation	—	—	(46)	(46)
Net book value	—	—	43	43
Net book value at January 1, 2007	**—**	**—**	**43**	**43**
Additions	**—**	**—**	**18**	**18**
Addition due to acquisition of ski operation of a subsidiary (note 33)	**3**	**6**	**3**	**12**
Depreciation	**—**	**—**	**(15)**	**(15)**
Exchange differences	**—**	**—**	**2**	**2**
Net book value at December 31, 2007	**3**	**6**	**51**	**60**
At December 31, 2007				
At cost	**3**	**6**	**113**	**122**
Less: Accumulated depreciation	**—**	**—**	**(62)**	**(62)**
Net book value	**3**	**6**	**51**	**60**

16. PROPERTIES UNDER DEVELOPMENT/HELD FOR SALE/HELD FOR DEVELOPMENT

a. Properties under development/held for sale

	The Group	
HK$ million	**2007**	2006
Properties under development	**9,231**	3,210
Less: Properties under development classified as non-current assets	**(795)**	(1,979)
	8,436	1,231
Properties held for sale	**697**	290
Properties under development/held for sale	**9,133**	1,521

i. 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.

b. Properties held for development

	The Group	
HK$ million	**2007**	2006
Balance at January 1,	**—**	—
Additions	**801**	—
Exchange differences	**15**	—
Balance at December 31,	**816**	—

Properties held for development represents freehold land in Japan and Thailand, for which the Group intends for future development projects. The land in Japan is held by a wholly-owned subsidiary, Nihon Harmony Resort K.K.. The land in Thailand is held by the Group through a long-term operating lease agreement with the legal owners, 39 per cent owned entities, established to hold the land, which have been consolidated into these financial statements (note 19A).

NOTES TO THE FINANCIAL STATEMENTS

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17. 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:

	The Group	
HK$ million	**2007**	2006
Leases in mainland China over 50 years		
Balance at January 1,	**502**	—
Addition	**—**	495
Amortisation	**(7)**	(5)
Exchange differences	**36**	12
Transfer to properties under development	**(531)**	—
Balance at December 31,	**—**	502

As at December 31, 2007, the net book value of leasehold land included in properties under development was approximately HK$686 million (2006: HK$155 million).

18. GOODWILL

	The Group	
HK$ million	**2007**	2006
Balance at January 1,	**81**	81
Addition due to acquisition of ski operation of a subsidiary (note 33)	**10**	—
Exchange differences	**2**	—
Balance at December 31,	**93**	81

18. GOODWILL - CONTINUED

Goodwill is allocated to the Group's cash-generating units identified as follows:

	The Group	
HK$ million	**2007**	2006
Property development division	**81**	81
Other business - ski operation	**12**	—
Balance at December 31,	**93**	81

Management has performed assessments on the recoverable amount of the above cash-generating units and considered there is no impairment of goodwill as at December 31, 2007. The recoverable amount of the property development division is determined based on the projected cash flow forecast of each property development project, with management's best estimates of the sales proceeds, construction costs and other operating expenses. The recoverable amount of the ski operation is determined based on the projected cash flow forecast of the business.

19. INVESTMENT IN SUBSIDIARIES

	The Company	
HK$ million	**2007**	2006
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, 2007, the Group has financed the operations of certain of its entities in mainland China amounting to approximately US$117 million (2006: US$117 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, 2007 were HK$2,913 million (2006: HK$2,423 million).

NOTES TO THE FINANCIAL STATEMENTS

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19A. PRINCIPAL SUBSIDIARIES AND ENTITIES CONSOLIDATED INTO THE FINANCIAL STATEMENTS

Company name	Place of incorporation/ operations	Principal activities	Nominal value of issued capital/ registered capital	Equity interest attributable to the Company Directly	Equity interest attributable to the Company Indirectly
ACCA Investment Limited	Hong Kong	Property holding	HK$2	—	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%
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%
北京啓夏房地產開發有限公司[3]	The People's Republic of China	Property development	US$78,000,000	—	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%
Ipswich Holdings Limited	British Virgin Islands	Investment holding	US$2	100%	—
Island South Property Management Limited	Hong Kong	Property management	HK$2	—	100%

19A. PRINCIPAL SUBSIDIARIES AND ENTITIES CONSOLIDATED INTO THE FINANCIAL STATEMENTS - CONTINUED

Company name	Place of incorporation/ operations	Principal activities	Nominal value of issued capital/ registered capital	Equity interest attributable to the Company Directly	Equity interest attributable to the Company Indirectly
Madeline Investments Limited 盈科大衍地產發展有限公司	Hong Kong	Trademark registrant	HK$2	—	100%
Nihon Harmony Resorts K.K.[4]	Japan	Project development	JPY405,000,000	—	100%
Partner Link Investments Limited	British Virgin Islands/ Hong Kong	Investment holding	US$1	—	100%
PCPD Facilities Management Limited	Hong Kong	Property management	HK$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%
Talent Master Investments Limited	British Virgin Islands/ Hong Kong	Property development	US$1	—	100%
Phang-Nga Leisure Limited	Thailand	Property holding	THB1,000,000	—	39%
Phang-Nga Paradise Limited	Thailand	Property holding	THB2,000,000	—	39%

Notes:

1 Represents a Sino-foreign cooperative joint venture.

2 Represents a wholly foreign investment enterprise.

3 Represents a wholly foreign owned enterprise.

4 The subsidiary has accounting year end date of June 30. This subsidiary prepares, for the purpose of consolidation, financial statements as at the same date as the Group.

NOTES TO THE FINANCIAL STATEMENTS

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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. The sales proceeds held in stakeholders' accounts of HK$2,425 million as at December 31, 2007 (2006: HK$3,472 million) are exposed to credit risk.

b. Restricted cash

Pursuant to the Cyberport Project Agreement, the Group has a restricted cash balance of approximately HK$575 million as at December 31, 2007 (2006: HK$826 million) held in specific bank accounts. The uses of the funds are specified in the Cyberport Project Agreement.

20. CURRENT ASSETS AND LIABILITIES - CONTINUED

c. Trade receivables, net

An aging analysis of trade receivables is set out below:

	The Group	
HK$ million	**2007**	2006
Current	**330**	418
One to three months	**1**	—
More than three months	**1**	20
	332	438

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. Trade receivables of HK$332 million (2006: HK$438 million) are exposed to credit risk. Trade receivables of HK$302 million as at December 31, 2007 is due from an independent customer that was not yet due and there is no history of default relating to this customer. The remaining balance in trade receivables relates to a number of independent customers for whom there is no recent history of default. As at December 31, 2007, the trade receivables balance were fully performing.

Trade receivables that are less than three months past due is not considered impaired. As at December 31, 2007, trade receivables of HK$1 million (2006: HK$20 million) was past due over three months but not impaired. This relates to a number of independent customers for whom there is no recent history of default. The aging analysis of this trade receivables is as follows:

	The Group	
HK$ million	**2007**	2006
Three to six months	**1**	13
Six months to twelve months	**—**	7
	1	20

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20. CURRENT ASSETS AND LIABILITIES - CONTINUED

c. Trade receivables, net - Continued

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	The Group	
HK$ million	**2007**	2006
Hong Kong dollar	**327**	437
Renminbi	**1**	1
Japanese yen	**4**	—
	332	438

d. Trade payables

An aging analysis of trade payables is set out below:

	The Group	
HK$ million	**2007**	2006
Current	**111**	80
One to three months	**3**	5
More than three months	**—**	8
	114	93

e. Accruals, other payables and deferred income

Accruals, other payables and deferred income represents accrual for construction costs and operating costs, retention payables, tenants deposits and deferred income.

20. CURRENT ASSETS AND LIABILITIES - CONTINUED

f. Gross amounts due to customers for contract works

	The Group	
HK$ million	**2007**	2006
Contract costs incurred plus attributable profits less foreseeable losses	**779**	779
Less: Estimated value of work performed	**(786)**	(786)
	(7)	(7)

The total amount of progress billings, included in the estimated value of work performed as at December 31, 2007, was approximately HK$786 million (2006: HK$786 million).

21. LONG-TERM BORROWINGS

	The Group		
	2007		
HK$ million	**Long-term borrowings**	**Convertible notes reserve**	**Total**
Balance at January 1, 2007	**1,904**	**769**	**2,673**
Finance costs charged to consolidated income statement (note a)	**133**	—	**133**
Interest paid	**(12)**	—	**(12)**
	2,025	**769**	**2,794**
Interest amount payable included in amounts due to fellow subsidiaries	**(12)**	—	**(12)**
Balance at December 31, 2007	**2,013**	**769**	**2,782**
Less: Amount classified as current liabilities	**(24)**	—	**(24)**
	1,989	**769**	**2,758**

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007 (Amount expressed in Hong Kong dollars unless otherwise stated)

21. LONG-TERM BORROWINGS - CONTINUED

	The Group		
	2006		
HK$ million	Long-term borrowings	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

	The Company		
HK$ million	Long-term borrowings	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 b)	(1,779)	(769)	(2,548)
Balance at December 31, 2006, January 1, 2007 and December 31, 2007	—	—	—

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.

21. LONG-TERM BORROWINGS - CONTINUED

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 (2006: 6.87 per cent) to the liability component.

b. 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$3.6 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 (see note 26).

22. AMOUNT PAYABLE TO THE GOVERNMENT OF THE HKSAR UNDER THE CYBERPORT PROJECT AGREEMENT

	The Group		
	2007		
HK$ million	Government share under the Cyberport Project Agreement (note a)	Others	Total
Balance at January 1, 2007	3,480	25	3,505
Additional amount payable included in properties under development	6,745	—	6,745
Additional amount payable	—	33	33
Settlement during the year	(3,339)	(25)	(3,364)
Balance at December 31, 2007	6,886	33	6,919
Less: Amount classified as current liabilities	(5,145)	(33)	(5,178)
	1,741	—	1,741

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22. AMOUNT PAYABLE TO THE GOVERNMENT OF THE HKSAR UNDER THE CYBERPORT PROJECT AGREEMENT - CONTINUED

	The Group 2006		
HK$ million	Government share under the Cyberport Project Agreement (note a)	Others	Total
Balance at January 1, 2006	6,705	29	6,734
Additional amount payable included in properties under development	390	—	390
Additional amount payable	—	16	16
Settlement during the year	(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

a. Pursuant to the Cyberport Project Agreement (note 16(a)(i)), the Government of the HKSAR shall be entitled to receive payments of approximately 65 per cent from the surplus cashflow arising from the sales of the residential portion of the Cyberport project, net of certain allowable costs incurred on the project, as stipulated under certain terms and conditions of the Cyberport Project Agreement. Amount payable 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 amount payable to the Government of the HKSAR is based on estimated sales proceeds of the residential portion of the project and the estimated development costs of the Cyberport project. The estimated amount to be paid to the Government of the HKSAR during the forthcoming year is classified as current liabilities.

23. ISSUED EQUITY

	The Group	
	Number of shares	Issued equity HK$ million
	(note a)	(note a)
Ordinary shares of HK$0.10 each at 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**
Issue of new shares for exercise of share options (note d)	**5,000,000**	**12**
Ordinary shares of HK$0.10 each at December 31, 2007	**2,407,459,873**	**4,321**

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.

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, 2006, December 31, 2006 and December 31, 2007	**10,000,000,000**	**1,000**
Issued and fully paid:		
Ordinary shares of HK$0.10 each at January 1, 2006 and December 31, 2006	**2,402,459,873**	**240**
Issue of new shares for exercise of share options (note d)	**5,000,000**	**1**
Ordinary shares of HK$0.10 each at December 31, 2007	**2,407,459,873**	**241**

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23. ISSUED EQUITY - CONTINUED

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.

d. During the year, 5,000,000 share options were exercised by an eligible option holder at HK$2.375 for a total cash consideration of HK$11,875,000 resulting in the issue of 5,000,000 new ordinary shares of HK$0.10 each.

24. EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement schemes

Employees of the Group are 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 ten 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.

25. EQUITY COMPENSATION BENEFITS - CONTINUED

Share option scheme - Continued

Under the 2005 Scheme, the board of directors of the Company may, at its discretion, grant share options to any eligible person to subscribe for shares in the Company subject to the terms and conditions stipulated in the 2005 Scheme. The exercise price of the options under the 2005 Scheme is determined by the board of directors of the Company in its absolute discretion but in any event shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotations sheet of the Stock Exchange on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheet of the Stock Exchange for the five days last preceding the date of grant on which days it has been possible to trade shares on the Stock Exchange; and (iii) the nominal value of the share of the Company on the date of grant. The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2005 Scheme and any other share option schemes of the Company must not exceed 30 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).

Details of share options granted by the Company pursuant to the 2003 share option scheme and the share options outstanding at December 31, 2007, are as follows:

(i) Movements in share options

	Number of options	
	2007	2006
Balance at January 1,	**10,000,000**	10,000,000
Exercised during the year	**(5,000,000)**	—
Balance at December 31 (note (ii))	**5,000,000**	10,000,000
Options vested at December 31,	**5,000,000**	10,000,000

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25. EQUITY COMPENSATION BENEFITS - CONTINUED

Share option scheme - Continued

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

			2007		2006	
Date of grant	Exercise period	Exercise price HK$	**Consideration received HK$**	**Number of options**	Consideration received HK$	Number of options
December 20, 2004	December 20, 2004 to December 19, 2014	2.375	**2**	**5,000,000**	2	10,000,000
			2	**5,000,000**	2	10,000,000

During the years ended December 31, 2007 and December 31, 2006, 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 as at December 31, 2007.

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

	2007		2006	
	Average exercise price in HK$ per share	**Number of options**	Average exercise price in HK$ per share	Number of options
Balance at January 1,	**2.375**	**10,000,000**	2.375	10,000,000
Exercised during the year	**2.375**	**(5,000,000)**	—	—
Balance at December 31,	**2.375**	**5,000,000**	2.375	10,000,000

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

The weighted average share price at the date of exercise for share options exercised during the year was HK$2.46 (2006: not applicable).

25. EQUITY COMPENSATION BENEFITS - CONTINUED

Share option scheme - Continued

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 ten 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".

26. RESERVES

	The Company						
	2007						
HK$ million	Share premium	Capital redemption reserve	Other reserve	Contributed surplus	Employee share-based compensation reserve	Retained earnings	Total
Balance at January 1, 2007	3,871	1	769	21	17	373	5,052
Profit for the year	—	—	—	—	—	645	645
Total recognised income for 2007	—	—	—	—	—	645	645
Issue of new shares for exercise of share options (note 23(d))	11	—	—	—	—	—	11
2006 final dividend paid	—	—	—	(21)	—	(111)	(132)
2007 interim dividend paid	—	—	—	—	—	(36)	(36)
Balance at December 31, 2007	3,882	1	769	—	17	871	5,540

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26. RESERVES - CONTINUED

	The Company 2006							
HK$ million	Share premium	Capital redemption reserve	Convertible notes reserve	Other reserve	Contributed surplus	Employee share-based compensation reserve	(Deficit)/ Retained earnings	Total
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 23(c))	(322)	—	—	—	—	—	322	—
Novation of convertible notes (tranche B note due 2014) to an indirectly wholly-owned subsidiary (note 21(b))	—	—	(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 21(b))	—	—	—	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

27. EMPLOYEE SHARE-BASED COMPENSATION RESERVE

	The Group	
HK$ million	**2007**	2006
At January 1,	**17**	15
Employee share option benefits	**—**	2
At December 31,	**17**	17

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(t)(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:

	The Group				
HK$ million	Accelerated tax depreciation	Revaluation of properties	Tax losses	Others	Total
At January 1, 2006	196	146	(11)	(12)	319
Charged/(Credited) to consolidated income statement (note 11)	33	(3)	11	3	44
Exchange differences	7	5	—	—	12
At December 31, 2006	236	148	—	(9)	375
At January 1, 2007	**236**	**148**	**—**	**(9)**	**375**
Credited to consolidated income statement (note 11)	**(32)**	**(34)**	**—**	**(6)**	**(72)**
Exchange differences	**16**	**9**	**—**	**(2)**	**23**
At December 31, 2007	**220**	**123**	**—**	**(17)**	**326**

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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

	The Group	
HK$ million	**2007**	2006
Deferred tax liabilities recognised in the consolidated balance sheet	**348**	389
Less: Amount netted off against deferred tax assets recognised in the consolidated balance sheet	**(22)**	(14)
Balance at December 31,	**326**	375

b. The deferred tax assets in respect of tax losses carried forward are recognised to the extent that realisation of the related tax benefit through utilisation against future taxable profits is probable. The components of deferred tax assets recognised in the consolidated balance sheet and the movements during the year are as follows:

	The Group		
HK$ million	Tax losses	Others	Total
At January 1, 2006	2	—	2
Charged to consolidated income statement (note 11)	(1)	—	(1)
At December 31, 2006	1	—	1
At January 1, 2007	**1**	**—**	**1**
(Charged)/Credited to consolidated income statement (note 11)	**(1)**	**10**	**9**
At December 31, 2007	**—**	**10**	**10**

c. The Group has unrecognised estimated tax losses of HK$225 million as at December 31, 2007 (2006: HK$136 million) to be carried forward for deduction against future taxable profits. HK$60 million (2006: Nil) tax losses relating to overseas companies would be expired within five to seven years from December 31, 2007, the remaining HK$165 million (2006: HK$136 million) 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 used in operating activities

	The Group	
HK$ million	**2007**	2006
Profit before taxation	**870**	1,160
Adjustments for:		
Interest income	**(275)**	(376)
Finance costs	**133**	130
Provision of rental guarantee	**6**	—
Impairment loss	**11**	25
Unrealised loss on derivative financial instrument	**7**	—
Depreciation	**15**	15
Amortisation of leasehold land	**7**	5
Surplus on revaluation of investment properties	**(14)**	(2)
Foreign exchange loss	**—**	2
Value of employee services under employee share option scheme	**—**	2
Operating profit before changes in working capital	**760**	961

NOTES TO THE FINANCIAL STATEMENTS

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29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT - CONTINUED

a. Reconciliation of profit before taxation to net cash used in operating activities - Continued

	The Group	
HK$ million	**2007**	2006
Decrease/(Increase) in operating assets:		
- properties under development/held for sale	**(5,897)**	4,044
- properties held for development	**(801)**	—
- interest in leasehold land	**—**	(260)
- other non-current receivables	**(16)**	(7)
- prepayments, deposits and other current assets	**(25)**	32
- sales proceeds held in stakeholders' accounts	**1,047**	821
- restricted cash	**251**	506
- trade receivables	**107**	(199)
- amounts due from fellow subsidiaries	**(5)**	5
- amounts due from related companies	**2**	(3)
Increase/(Decrease) in operating liabilities:		
- trade payables, accruals, other payables and deferred income	**(167)**	(491)
- deposits received on sales of properties	**1,846**	(724)
- gross amounts due to customers for contract work	**—**	(4)
- amounts due to fellow subsidiaries	**(2)**	(7)
- amount due to ultimate holding company	**(1,195)**	(1,985)
- amount payable to the Government of the HKSAR under the Cyberport Project Agreement	**3,414**	(3,229)
- other long-term liabilities	**72**	(19)
Cash used in operations	**(609)**	(559)
Interest paid	**(24)**	(24)
Interest received	**277**	389
Tax paid		
- Hong Kong profits tax paid	**(186)**	(241)
- mainland China income tax paid	**(30)**	—
Net cash used in operating activities	**(572)**	(435)

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT - CONTINUED

b. Analysis of cash and cash equivalents

	The Group	
HK$ million	**2007**	2006
Cash and bank balances	**2,440**	3,444
Less: Short-term deposits	**(106)**	(173)
Less: Restricted cash	**(575)**	(826)
Cash and cash equivalents at December 31,	**1,759**	2,445

30. COMMITMENTS

a. Capital

	The Group	
HK$ million	**2007**	2006
Authorised and contracted for	**1,292**	1,739
Authorised but not contracted for	**549**	659
	1,841	2,398

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30. COMMITMENTS - CONTINUED

a. Capital - Continued

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

	The Group	
HK$ million	**2007**	2006
Property development for Cyberport project (note (i))	**1,618**	2,181
Property development for other projects	**190**	171
Investment properties	**8**	37
Property, plant and equipment	**23**	2
Others	**2**	7
	1,841	2,398

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

b. Operating leases

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

Land and buildings (as lessee)

	The Group	
HK$ million	**2007**	2006
Within 1 year	**8**	7
After 1 year but within 5 years	**15**	12
	23	19

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

30. COMMITMENTS - CONTINUED

b. Operating leases - Continued

Equipment (as lessee)

	The Group	
HK$ million	**2007**	2006
Within 1 year	**4**	2
After 1 year but within 5 years	**5**	—
	9	2

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

(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, the total future minimum lease receivable under non-cancellable operating leases are as follows:

Land and buildings (as lessor)

	The Group	
HK$ million	**2007**	2006
Within 1 year	**185**	178
After 1 year but within 5 years	**312**	281
After 5 years	**—**	1
	497	460

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31. GUARANTEES

The guarantees provided by the Group and the Company are set out as follows:

	The Group		The Company	
HK$ million	**2007**	2006	**2007**	2006
Performance guarantee	**1**	1	**—**	—

(i) In 2005, 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. Under the Property Sales and Purchase Agreement, 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 five years up to February 7, 2010. As at December 31, 2007, the Group had a provision of approximately HK$9 million (2006: HK$3 million) in relation to the rental guarantee over the remaining term of the guarantee period.

(ii) 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 21(b)). 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, 2007 and December 31, 2006.

33. BUSINESS COMBINATION

On August 23, 2007, the Group acquired 100 per cent of the share capital of Nihon Harmony Resorts K.K., a company incorporated in Japan, which has a ski operation in Hokkaido, Japan. The acquired business contributed revenues of HK$8 million and net loss of HK$7 million to the Group for the period from August 23, 2007 to December 31, 2007.

	The Group
HK$ million	2007
Purchase consideration in cash for the acquisition on August 23, 2007	179
Direct costs in relation to acquisition	3
	182
Less: purchase consideration in cash for properties held for development	(159)
Purchase consideration in cash for ski operation of a subsidiary	23
Fair value of net assets acquired (note (a))	(13)
Goodwill (note 18)	10

The goodwill is attributable to future profit generated from the ski operation.

(a) The assets and liabilities of the ski operation as at August 23, 2007 are as follows:

HK$ million	Fair value	Acquiree's carrying amount
Property, plant and equipment (note 15)	12	12
Other non-current assets	2	2
Trade receivables, net	1	1
Prepayments, deposits and other current assets	1	1
Trade payables	(2)	(2)
Accruals, other payables and deferred income	(1)	(1)
Net assets acquired	13	13

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33. BUSINESS COMBINATION - CONTINUED

	The Group
HK$ million	2007
Purchase consideration settled in cash	23
Cash and cash equivalents of ski operation acquired	—
Cash outflow on acquisition of ski operation	23

There was no acquisition in the year ended December 31, 2006.

34. MATERIAL RELATED PARTY TRANSACTIONS

The Group is controlled by PCCW which owns 61.53 per cent (2006: 61.66 per cent) of the Company's shares. The remaining 38.47 per cent (2006: 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:

	The Group	
HK$ million	**2007**	2006
Sales of services:		
- Fellow subsidiaries		
Facility management services	**53**	45
Office leases rental	**11**	11
- Related companies		
Facility management services	**25**	24
Office leases rental	**3**	2
Other services	**—**	2
Purchases of services:		
- Fellow subsidiaries		
Corporate services	**4**	5
Office sub-leases	**8**	8
Information technology and other logistic services	**5**	14
- Related companies		
Other services	**1**	—

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 2006, a fellow subsidiary of the Company paid approximately HK$7 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 was a tenant. There was no such payment in 2007.

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.

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34. MATERIAL RELATED PARTY TRANSACTIONS - CONTINUED

b. Details of key management compensation

	The Group	
HK$ million	**2007**	2006
Salaries and other short-term employee benefits	**22**	17
Bonuses	**31**	11
Directors' fee	**1**	1
Post-employment benefits	**2**	1
	56	30
Share-based compensation accounting adjustment (note (i))	**—**	1
	56	31

(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.

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

	The Group	
HK$ million	**2007**	2006
Receivables from related parties:		
- Fellow subsidiaries	**10**	5
- Related companies	**3**	5
	13	10
Payables to related parties:		
- Fellow subsidiaries	**15**	17

34. MATERIAL RELATED PARTY TRANSACTIONS - CONTINUED

d. Loan from/amounts due to related parties

(i) The movements of the amount due to ultimate holding company as at December 31, 2007 are as follow:

	The Group	
HK$ million	**2007**	2006
Loan from/amount due to ultimate holding company:		
Balance at January 1,	**1,195**	3,180
Repayment of amount due to ultimate holding company	**(1,195)**	(1,985)
Balance at December 31,	**—**	1,195

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

(ii) The movements of the loan from a fellow subsidiary of HK$2,596 million as at December 31, 2007 (2006: HK$2,548 million) are as follow:

	The Group	
HK$ million	**2007**	2006
Loan from a fellow subsidiary:		
Balance at January 1,	**2,548**	2,499
Interest expenses	**24**	24
Interest amount payable included in amounts due to fellow subsidiaries	**(12)**	(12)
Interest paid	**(12)**	(12)
Provision for redemption premium	**48**	49
Balance at December 31,	**2,596**	2,548

The loan from a fellow subsidiary represents the convertible notes (tranche B note due 2014) with principal value of HK$2,420 million (see note 21 (b) for details).

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007 (Amount expressed in Hong Kong dollars unless otherwise stated)

35. 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: foreign exchange risk, credit risk, liquidity risk and fair value 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 principal 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. Foreign exchange risk

The Group operates in the Asia-Pacific region and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong 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 Hong Kong dollar, US dollar and Renminbi. As US dollar is pegged to Hong Kong dollar, the Group does not expect any significant movements in the US dollar/Hong Kong 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.

At the reporting date, the balance sheet exposure to foreign currency risk was as follows:

	The Group	
	2007	2006
HK$ million	**US dollar**	US dollar
Short-term deposits	**106**	—
Cash and cash equivalents	**525**	707
	631	707

35. FINANCIAL RISK MANAGEMENT - CONTINUED

a. Foreign exchange risk - Continued

The Group has certain investments in foreign operations, 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, Thai baht and Japanese yen.

Sensitivity analysis for foreign currency exposure

A five per cent appreciation of Hong Kong dollar against the following currencies at December 31, 2007 would have decreased in profit after tax and equity by the amounts shown below. This represents the translation of financial assets and liabilities and the change in fair value of currency derivatives at the balance sheet date. It assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2006.

	The Group			
	2007		2006	
HK$ million	**Decrease in profit after tax**	**Decrease in currency translation reserve**	Decrease in profit after tax	Decrease in currency translation reserve
US dollar	**(32)**	**—**	(35)	—
Renminbi	**—**	**(234)**	—	(193)
Thai baht	**—**	**(28)**	—	—
Japanese yen	**—**	**(10)**	—	—

The Company is not exposed to foreign exchange risk.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007 (Amount expressed in Hong Kong dollars unless otherwise stated)

35. 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.

The credit quality of cash and cash equivalents and short-term deposits, and restricted cash balances can be assessed by reference to Moody's ratings (if available) as follows:

Cash and cash equivalents and short-term deposits

	The Group	
HK$ million	**2007**	2006
Aaa	**298**	687
Aa1	**—**	265
Aa2	**112**	—
Aa3	**94**	537
A1	**701**	—
A2	**560**	1,129
Baa1	**99**	—
Unrated	**1**	—
Balance as at December 31,	**1,865**	2,618

Restricted cash

	The Group	
HK$ million	**2007**	2006
Aa2	**575**	—
Aa3	**—**	826
Balance as at December 31,	**575**	826

35. FINANCIAL RISK MANAGEMENT - CONTINUED

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.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	The Group					
HK$ million	**Within 1 year or on demand**	**More than 1 year but within 2 years**	**More than 2 years but within 5 years**	**More than 5 years**	**Total contractual undiscounted cash flow**	**Carrying Amount**
At December 31, 2007						
Trade payables	**114**	**—**	**—**	**—**	**114**	**114**
Accruals and other payables	**1,272**	**—**	**—**	**—**	**1,272**	**1,272**
Derivative financial instrument	**7**	**—**	**—**	**—**	**7**	**7**
Amounts due to fellow subsidiaries	**15**	**—**	**—**	**—**	**15**	**15**
Amount payable to the Government of the HKSAR under the Cyberport Project Agreement	**5,178**	**1,741**	**—**	**—**	**6,919**	**6,919**
Long-term borrowings	**24**	**24**	**73**	**2,937**	**3,058**	**2,013**
Other long-term liabilities	**—**	**86**	**1**	**—**	**87**	**87**
At December 31, 2006						
Trade payables	93	—	—	—	93	93
Accruals and other payables	1,451	—	—	—	1,451	1,451
Amounts due to fellow subsidiaries	17	—	—	—	17	17
Amount due to ultimate holding company	1,195	—	—	—	1,195	1,195
Amount payable to the Government of the HKSAR under the Cyberport Project Agreement	1,914	1,591	—	—	3,505	3,505
Long-term borrowings	24	24	73	2,961	3,082	1,904
Other long-term liabilities	—	6	9	—	15	15

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007 (Amount expressed in Hong Kong dollars unless otherwise stated)

35. FINANCIAL RISK MANAGEMENT - CONTINUED

d. Fair value 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. The Group is exposed to fair value interest rate risk since the Group's long-term borrowings are fixed rate borrowings. The Group's policy is to maintain stable cash flows by entering into fixed interest rate borrowings.

36. CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

Though all borrowings are from the Company's ultimate holding company, PCCW, or its designated subsidiary, the Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher level of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Net debt is calculated as total debt (which includes the convertible notes and the amount due to ultimate holding company) less cash and cash equivalents and short-term deposits. Adjusted capital comprises the issued equity and retained earnings.

During 2007, the Group fully repaid the amount due to ultimate holding company from the surplus distribution from the Cyberport project (note 34(d)(i)) and the debt-to-adjusted capital ratio decreased from 18 per cent as at December 31, 2006 to 11 per cent as at December 31, 2007. Management's strategy is to maintain the debt-to-adjusted capital ratio within 10 per cent to 20 per cent. The dividend payment in 2007 was maintained at the same level as in 2006 of HK$168 million. The debt-to-adjusted capital ratios at both December 31, 2007 and 2006 were as follows:.

	The Group	
HK$ million	**2007**	2006
Loan from a fellow subsidiary (note 34(d)(ii))	**2,596**	2,548
Amount due to ultimate holding company (note 34(d)(i))	**—**	1,195
Less: cash and cash equivalents (note 29(b))	**(1,759)**	(2,445)
Less: short-term deposits (note 29(b))	**(106)**	(173)
Net debt	**731**	1,125
Issued equity	**4,321**	4,309
Add: retained earnings	**2,570**	1,954
Adjusted capital	**6,891**	6,263
Debt-to-adjusted capital ratio	**11%**	18%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

37. POST BALANCE SHEET EVENTS

On February 12, 2008, Picville Investments Limited (an indirect wholly-owned subsidiary of PCCW) requested the Board to put forward a proposal to shareholders of the Company other than those acting in concert with PCCW (the "Proposal") regarding a proposed privatisation of the Company by way of a scheme of arrangement under Section 99 of the Companies Act of Bermuda. It is intended that as a result of the Proposal becoming effective the Company will become an indirect wholly-owned subsidiary of PCCW and will apply to the Stock Exchange for the withdrawal of the listing of the Company's shares. Having reviewed the Proposal, the Board (other than the members of the independent board committee of the Company which has been established to advise the independent shareholders in connection with the Proposal) has agreed to put the Proposal forward to the relevant shareholders of the Company. The Proposal is conditional on certain conditions being fulfilled or waived on or before August 31, 2008 (or such date as Picville Investments Limited and the Company may agree and the Supreme Court of Bermuda may allow), otherwise it will lapse. There is no financial impact to the consolidated financial statements of the Group as at December 31, 2007.

On February 18, 2008, the Group entered into agreements with a wholly-owned subsidiary of PCCW for the disposal of the entire share capital of two subsidiaries effective from March 31, 2008, at a total consideration of HK$51 million. These two subsidiaries are property holding companies and the properties are stated at fair market value at the balance sheet date. On the date entered into the agreements, the net asset value of these two subsidiaries amounted to approximately HK$47 million. It is expected that no material gain will be recognised in 2008 as a result of the disposal.

FIVE YEAR FINANCIAL SUMMARY

Results

HK$ million	**2007**	2006	2005	2004	2003
TURNOVER BY PRINCIPAL ACTIVITY					
Property development	**2,800**	6,953	4,821	5,415	4,111
Property investment	**235**	228	233	358	346
Other businesses	**99**	82	73	58	71
	3,134	7,263	5,127	5,831	4,528
Profit from operations	**728**	914	615	477	190
Interest income/(finance costs), net	**142**	246	95	(164)	(160)
Profit before taxation	**870**	1,160	710	313	30
Income tax	**(86)**	(195)	(113)	39	(100)
Profit attributable to equity holders of the Company	**784**	965	597	352	(70)

Assets and liabilities as at December 31,

HK$ million	**2007**	2006	2005	2004	2003
Total non-current assets	**5,953**	6,482	5,610	12,671	10,420
Total current assets	**14,406**	8,940	15,034	7,049	5,648
Total current liabilities	**(8,592)**	(4,878)	(11,320)	(7,533)	(5,714)
Net current assets/(liabilities)	**5,814**	4,062	3,714	(484)	(66)
Total assets less current liabilities	**11,767**	10,544	9,324	12,187	10,354
Total non-current liabilities	**(4,143)**	(3,861)	(3,567)	(7,746)	(10,291)
Net assets	**7,624**	6,683	5,757	4,441	63

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 Gong Ti Bei Lu, 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 18th floor & 20th floor, roof & parking space Nos. 5, 6, 7, 8, lorry spaces No. L3, L4 & L5 on 1st floor	Not applicable	3,778 plus roof space 1,169	Workshop and ancillary for non-domestic use	Medium	100%

* 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)*
Alexander Anthony Arena *(Deputy Chairman)*
Lee Chi Hong, Robert *(Chief Executive Officer)*
Lam Yu Yee
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

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 701-705, Level 7
Cyberport 3
100 Cyberport Road
Hong Kong
Telephone: +852 2514 3990
Fax: +852 2514 3945

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM 08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Rooms 1806-1807
18th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong
Telephone: +852 2862 8628
Fax: +852 2529 6087
Email: hkinfo@computershare.com.hk

INVESTOR RELATIONS

David Woo
Pacific Century Premium Developments Limited
Units 701-705, Level 7
Cyberport 3
100 Cyberport Road
Hong Kong
Telephone: +852 2883 6130
Fax: +852 2514 1757
Email: david.kw.woo@pcpd.com

WEBSITE

www.pcpd.com

PACIFIC CENTURY PREMIUM DEVELOPMENTS LIMITED
(Incorporated in Bermuda with limited liability)

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

UNITS 701-705, LEVEL 7, CYBERPORT 3, 100 CYBERPORT ROAD, HONG KONG

TELEPHONE: 2514 3990 FACSIMILE: 2514 3945

www.pcpd.com