Pacific Century Premium Developments

盈科大衍地產發展

STOCK CODE: 00432

ANNUAL REPORT 2009

A STRATEGIC MOVE FOR SUCCESS

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'.

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CORPORATE PROFILE

MAJORITY-OWNED BY PCCW LIMITED (“PCCW”), PACIFIC CENTURY PREMIUM DEVELOPMENTS LIMITED (“PCPD” OR THE “GROUP”, SEHK: 00432) 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

Developed and managed by PCPD, the landmark Bel-Air luxury-lifestyle residential complex located in Hong Kong south was completed in 2009 and has become well known as one of the territory's most desirable and prestigious developments. The Group has also created a luxury residential development in the west of Central, under the name ONE Pacific Heights.

In mainland China, the Group's premium-grade investment property located in Beijing's Chaoyang district, Pacific Century Place, is currently home to multinational corporations, world-class retailers and residential tenants.

As part 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 world-class all-season resorts at Hokkaido in Japan and at Phang-nga in southern 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 with facilities, property and asset management services, as well as corporate services. These serve grade-A commercial buildings, retail and infrastructure complexes, along with mission-critical telephone exchanges, data centres, satellite earth stations and luxury residential properties.

Panoramic seaview of 6 Bel-Air Peak Rise, Villa Bel-Air

STATEMENT FROM THE CHAIRMAN

A PROPERTY MARKET RECOVERY IN TERMS OF PRICE AND VOLUME INDICATES THAT A REBOUNDING HONG KONG ECONOMY IS ACHIEVING HEALTHY GROWTH.

The global economy has entered the initial stage of recovery, followed by various government-sponsored stimulus measures designed to shore up general consumer demand and stabilise financial markets.

Although the way ahead is still fraught with uncertainty, there are positive signs which include an increase in credit flow and liquidity, along with a revival in local consumer sentiment. In addition, a recovery in property market conditions, especially in terms of price and volume, indicates the Hong Kong economy is not only rebounding, but is also achieving healthy growth.

Momentum in the residential sector has been maintained by strong demand at a time of improved economic conditions and competitive mortgage rates. This demand is also being fuelled by an increase in the number of transactions involving the mainland China buyers – a trend that has helped keep luxury property prices relatively buoyant.

Further afield, PCPD continues to work on long-term projects to create world-class all-season resort development projects in Hokkaido, Japan and Phang-nga in southern Thailand.

A promising long-term outlook for the economy and property market positions PCPD well to strengthen earnings and boost profitability by pursuing opportunities globally that show significant growth potential.

Finally, I would like to take this opportunity to thank our directors, management team and staff for their earnest efforts during the year to bring the Company to another year of growth and stability.

Richard Li
Chairman

March 9, 2010

STATEMENT FROM THE CHIEF EXECUTIVE OFFICER

WE WILL CONTINUALLY REVIEW PCPD'S INVESTMENT STRATEGY SO THAT WE CAN RESPOND TO PROPERTY DYNAMICS WHILE PURSUING A GLOBAL SEARCH FOR OPPORTUNITIES WITH GROWTH POTENTIAL.

I am pleased to report that the Group's consolidated turnover for the year ended December 31, 2009 was approximately HK$4,222 million, compared with HK$9,943 million for 2008. Consolidated operating profit for 2009 was approximately HK$966 million, compared to HK$693 million for 2008. Consolidated net profit for 2009 reached HK$594 million, compared with the previous year's HK$513 million. Basic earnings per share for the year were 24.68 Hong Kong cents, compared with 21.29 Hong Kong cents for 2008.

The board of directors ("the Board") did not recommend a final dividend and has recommended a special dividend of HK$1.32 per share for the year ended December 31, 2009.

Our home market is benefiting from an improvement in consumer sentiment along with a distinctly rosier economic outlook, thanks in part to the improving labour market and an effective fiscal stimulus package deployed by the government of the HKSAR.

The latter stages of the period under review saw a rise in transaction volumes of premium residential properties,

Hanazono 308 Snowsports Centre, Niseko, Hokkaido

Golf Course at Hanazono, Niseko, Hokkaido

reflecting the combined effects of improved economic conditions and low mortgage rates – all serving to stabilise the market and strengthen general home-purchase affordability.

PCPD is cautiously optimistic that long-term prospects for Hong Kong's high-end accommodation market are positive, especially in the light of an increasing residential property purchasing trend among the mainland China buyers.

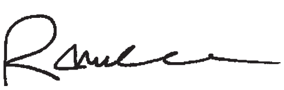
Houses at Villa Bel-Air are planned for gradual release over the next few years, while handover of sold units at ONE Pacific Heights in Hong Kong's west of Central district continues.

Turning to our projects overseas, master layout plans and marketing strategies are being drawn up for our world-class all-season resort development projects at Hokkaido in Japan, where the ski operation has already been established, and Phang-nga in southern Thailand.

The stylishly modern lobby at Bel-Air No.8 exudes an ambience of sophistication

A perfect picture of luxurious relaxation and recreation is provided by the inviting pool area at Bel-Air No.8

Looking ahead, PCPD will review its investment strategy on an ongoing basis so that we can respond to ever-changing property dynamics, while pursuing a global search for opportunities showing significant growth potential.



Robert Lee
Chief Executive Officer

March 9, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The 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, 2009 is as follows:

BUSINESS REVIEW

Property development

Revenue from property development in Hong Kong for the year ended December 31, 2009 amounted to approximately HK$3,855 million, compared with approximately HK$9,551 million for the previous year.

In February 2009, the tenth batch of net surplus proceeds from the Cyberport project, totalling HK$5,604 million, was allocated between the Government of the Hong Kong Special Administrative Region (the "HKSAR Government") and the Group, in accordance with the Cyberport Project Agreement. The HKSAR Government received approximately HK$3,617 million, while the Group retained approximately HK$1,987 million.

In July 2009, the eleventh batch of net surplus proceeds from the Cyberport project, totalling HK$2,639 million, was allocated between the HKSAR Government and the Group. In accordance with the Cyberport Project Agreement, the HKSAR Government received approximately HK$1,703 million, while the Group retained approximately HK$936 million.

In October 2009, the twelfth batch of net surplus proceeds from the Cyberport project, totalling HK$1,582 million, was allocated between the HKSAR Government and the Group. In accordance with the Cyberport Project Agreement, the HKSAR Government received approximately HK$1,022 million, while the Group retained approximately HK$560 million.

Houses at Villa Bel-Air in Cyberport are expected to be released gradually over the next few years. Handover of high-end residential development, ONE Pacific Heights, located in Wo Fung Street to the west of Central district continues.

The residential development at Lot No. 4, Gong Ti Bei Lu, Beijing was sold in the year with a gain of approximately HK$232 million.

In Japan, a significant progress has been made with development permit was obtained recently for the all-season resort project, Hanazono, Hokkaido.

Property investment in mainland China

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 73 per cent for the year ended December 31, 2009.

The Group's gross rental income for 2009 amounted to approximately HK$212 million, compared with approximately HK$230 million for 2008.

Other businesses

Other businesses within the Group include property developments in Thailand and Japan, facilities management, property management in Hong Kong and Japan, as well as the ski operation. Revenue from other businesses for 2009 amounted to approximately HK$155 million, compared with approximately HK$162 million for the previous year.

FINANCIAL REVIEW

Review of results

The Group recorded a consolidated turnover of approximately HK$4,222 million for 2009, representing a decrease of 58 per cent compared with approximately HK$9,943 million for 2008. The decrease in turnover was the result of revenue recognised from the sales of a major phase of Bel-Air which took place in last year.

The Group's consolidated gross profit for 2009 was approximately HK$1,190 million, representing a decrease of 32 per cent from a gross profit of approximately HK$1,762 million for 2008. The decrease in consolidated gross profit was resulted from the decrease in turnover.

The Group's consolidated operating profit for 2009 was approximately HK$966 million, comparing to HK$693 million for 2008.

The Group recorded consolidated net profit of approximately HK$594 million for 2009, representing an increase of 16 per cent compared with approximately HK$513 million for 2008. The increase was attributable to the gain on disposal of residential development project in mainland China during the year. Basic earnings per share during the year were 24.68 Hong Kong cents compared with 21.29 Hong Kong cents for 2008.

In accordance with applicable Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, revenue and profits from the sale of property development are recognised on completion of development, when the inflow of economic benefits associated with the property sales transactions is assessed to be probable and significant risks and rewards of ownership have been transferred.

Current assets and liabilities

As at December 31, 2009, the Group held current assets of approximately HK$8,776 million (December 31, 2008: HK$13,825 million), mainly comprising properties under development/held for sale, cash and bank balances, sales proceeds held in stakeholders' accounts and restricted cash. The decrease in current assets was attributable to a decrease in properties under development/held for sale. Properties under development/held for sale in current assets decreased from approximately HK$2,402 million as at December 31, 2008 to approximately HK$683 million as at December 31, 2009. Cash and bank balances amounted to approximately HK$5,506 million as at December 31, 2009 (December 31, 2008: HK$1,654 million). Sales proceeds held in stakeholders' accounts were decreased by 82 per cent from HK$6,994 million as at December 31, 2008 to approximately HK$1,271 million as at December 31, 2009. Restricted cash increased from HK$720 million as at December 31, 2008 to approximately HK$949 million as at December 31, 2009.

Total current liabilities as at December 31, 2009 amounted to approximately HK$2,331 million, compared with HK$7,428 million as at December 31, 2008.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital structure, liquidity and financial resources

As at December 31, 2009, total Group borrowings amounted to approximately HK$2,704 million, representing an increase of HK$48 million amortised redemption premium and RMB10 million loan from a bank compared with total borrowings of HK$2,645 million as at December 31, 2008. As at December 31, 2009, the Group's long-term borrowings representing RMB10 million loan from a bank due September 24, 2012 and the tranche B convertible note of HK$2,420 million from PCCW group, 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. As the tranche B convertible note of HK$2,420 million is from the Company's major shareholder, PCCW Limited, it is not included in the total debt for calculating the debt-to-equity ratio of the Group. As at December 31, 2009, the debt-to-equity ratio excluding the tranche B convertible note is 0.1 per cent (2008: Nil).

The Group's business transactions, assets and liabilities were primarily denominated in Hong Kong dollars. Renminbi-denominated revenue and Japanese Yen-denominated revenue represented approximately 5 per cent and 1 per cent of total Group turnover respectively, while PRC assets, Thailand assets and Japan assets represented approximately 32 per cent, 4 per cent and 4 per cent of the Group's total assets respectively.

All the Group's borrowings were denominated in Hong Kong dollars and Renminbi. Cash and bank balances were held mainly in Hong Kong dollars, with the remaining balance in US dollars, Renminbi, Thai Baht and Japanese Yen. As the Group has certain investments in foreign operations, 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 generated for operating activities in 2009 was approximately HK$3,134 million, while cash used for operating activities in 2008 was approximately HK$155 million.

Income tax

Income tax for 2009 was approximately HK$228 million compared with approximately HK$128 million for 2008. The increase of income tax was mainly due to reversal of deferred tax liabilities in prior year.

Charge on assets

As at December 31, 2009, investment properties of the Group with an aggregate carrying value of approximately HK$3,839 million (2008: Nil) were pledged to secure banking facilities of the Group.

Contingent liabilities

As at December 31, 2008, 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. There was no such performance guarantee outstanding as at December 31, 2009.

EMPLOYEES AND REMUNERATION POLICIES

As at December 31, 2009, the Group employed 566 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 and Group 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 adopted on May 23, 2005, following approval from PCCW's shareholders. The new share option scheme is valid and effective for a period of 10 years from the date of adoption.

DIVIDENDS

The Board has recommended the payment of a special dividend of HK$1.32 (2008: Nil) per ordinary share or an aggregate amount of approximately HK$3,178 million (2008: Nil) for the year ended December 31, 2009, subject to the approval of shareholders of the Company at the forthcoming annual general meeting, to shareholders whose names appear on the register of members of the Company on May 4, 2010, payable on or around May 17, 2010.

The Board did not recommend the payment of a final dividend for the year ended December 31, 2009 (2008: Nil).

The Board did not declare an interim dividend for the six months ended June 30, 2009 (2008: Nil).

CLOSURE OF REGISTER OF MEMBERS

The Company's register of members will be closed from May 5, 2010 to May 10, 2010, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the special dividend of HK$1.32 per ordinary share, all transfers, accompanied by the relevant share certificates, should be lodged with the branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on May 4, 2010. Dividend warrants will be despatched to shareholders on or around May 17, 2010.

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 global economy appears to have entered the early stages of recovery. The economic sentiment has apparently improved locally and internationally, largely as a result of ongoing relief measures deployed by governments and central banks around the world.

Increase in credit flow and liquidity, along with the improving labour market, revival of local consumer sentiment and more favourable property market conditions in terms of price and transaction volumes are helping the Hong Kong economy and property market demonstrate healthy growth. With this in mind, the Group maintains a cautiously optimistic view of Hong Kong's long-term property market prospects and general economic outlook.

Luxury houses at Villa Bel-Air in Hong Kong are planned for gradual release to the market over the next few years, while handover of sold units at ONE Pacific Heights continues. For the overseas projects, master layout plans and marketing strategies are being drawn up for long-term projects to create world-class all-season resort development projects at Hokkaido in Japan, and Phang-nga in southern Thailand.

The Group has adopted a prudent approach, while continuing to enhance competitiveness and strengthen profitability by maintaining a constant lookout for opportunities on a global scale.

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 43, is an executive director and the chairman of Pacific Century Premium Developments Limited ("PCPD"), chairman of PCPD's Executive Committee, a member of PCPD's Remuneration Committee and Nomination 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 ("PCRD"). 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 representative of Hong Kong, China to the Asia Pacific Economic Co-operation (APEC) Business Advisory Council, 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.

Alexander Anthony ARENA

Deputy Chairman

Aged 58, is an executive director and the deputy chairman of PCPD and a member of PCPD's Executive Committee. He is also the group managing director of PCCW, deputy chairman of PCCW's Executive Committee and a director of PCRD. 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 liberalization 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. He has led an extensive career in public administration, specializing in high technology and infrastructure industries.

From a practising radio/communications engineer to a public policy maker, his experience spans such diverse areas as commercialization 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 58, is an executive director and the chief executive officer of PCPD and a member of PCPD's Executive Committee. He was appointed an executive director of PCCW in September 2002 and is 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 (now Pritchard Englefield). He was enrolled as a solicitor in the United Kingdom 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 the United States in 1975 with a bachelor's degree in Political Science.

LAM Yu Yee

Aged 48, is an executive director and the deputy chief executive officer of PCPD. He joined PCPD in September 2004 and became a director of PCPD 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 56, 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 32 years.

Mr Chan holds a Bachelor of Arts in Architectural Studies degree from the 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 45, 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 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 Hong Kong Institute of Surveyors' top awards in property marketing.

Ms Gan holds a Bachelor of Arts degree with First Class Honours from the 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 Voting Member of the HKU Foundation for Educational Development and Research. She has also received a Diploma in Surveying from the College of Estate Management, UK 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. In 2008, she has obtained an Executive Master of Business of Administration degree jointly awarded by the Kellogg School of Management of the Northwestern University in USA and the Business School of the Hong Kong University of Science and Technology.

BOARD OF DIRECTORS

NON-EXECUTIVE DIRECTORS

CHEUNG Kin Piu, Valiant

Aged 64, is an independent non-executive director of PCPD and the chairman of PCPD's Remuneration Committee and a member of PCPD's Audit Committee and Nomination 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 two other listed companies in Hong Kong Dah Chong Hong Holdings Limited and The Bank of East Asia, Limited. In addition, he is also an independent non-executive director of unlisted Bank of East Asia (China) Limited, a wholly-owned subsidiary of The Bank of East Asia, Limited. He was an independent non-executive director of Dream International Limited from October 2001 to May 2008 and of Wing Shan International Limited (currently known as Winteam Pharmaceutical Group Limited) from March 2004 to January 2009.

Prof WONG Yue Chim, Richard, SBS, JP

Aged 57, is an independent non-executive director of PCPD and the chairman of PCPD's Audit Committee and a member of PCPD's Remuneration Committee and Nomination Committee. He became a director of PCPD in July 2004.

Prof Wong currently serves as Deputy Vice-Chancellor and Provost of the 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 a Justice of the Peace in July 2000. He studied Economics at the University of Chicago and graduated with a Doctorate in Philosophy.

Prof Wong is currently an independent non-executive director of five other listed companies in Hong Kong: CK Life Sciences Int'l., (Holdings) Inc., Great Eagle Holdings Limited, Industrial and Commercial Bank of China (Asia) Limited, Orient Overseas (International) Limited and Sun Hung Kai Properties Limited. He is also an independent non-executive director of The Link Management Limited (the manager of The Link Real Estate Investment Trust). He had also served as an independent non-executive director of Pacific Century Insurance Holdings Limited (formerly a listed company in Hong Kong) from June 1999 to June 2007. In addition, Prof Wong is currently an independent non-executive director of The Hong Kong Mercantile Exchange.

Dr Allan ZEMAN, GBS, JP

Aged 61, is an independent non-executive director of PCPD, the chairman of PCPD's Nomination Committee and a member of PCPD's Audit Committee. He became a director of PCPD in June 2004.

After spending more than 40 years in Hong Kong, Dr Zeman has established business interests in Hong Kong 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 Community Chest and the West Kowloon Cultural District Authority ("WKCDA"). He is also a member of the Tourism Strategy Group for the Hong Kong Tourism Commission, the Food Business Task Force for the Business Facilitation Advisory Committee, the Commission on Strategic Development to serve on Economic Development and Economic Cooperation with Mainland, the Consultation Panel of the WKCDA, the Chairman of the Performing Arts Committee of the WKCDA, the Development Committee of the WKCDA and the Investment Committee of the WKCDA. 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, a non-executive director and the vice chairman of Wynn Macau, Limited, and is also an independent non-executive director of The Link Management Limited (the manager of The Link Real Estate Investment Trust), 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 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, 2009, except that the Chairman of the Board was unable to attend the Company's annual general meeting held on June 11, 2009 (which was required under code provision E.1.2) as he needed to attend an important business meeting of the Company.

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 inquiries 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, 2009.

BOARD OF DIRECTORS

As at the date of this report, the Board has nine members, comprising six executive directors and three 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 on pages 16 to 21 of this annual report.

The Board is responsible for the management of the Company. Key responsibilities of the Board include formulation of the Group's overall strategies, setting of management targets and 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 amounts; and

5. monitoring the corporate governance of the Group in order to comply with 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 that the Board functions effectively, for providing leadership for the Board in setting 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 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 Hong Kong Financial Reporting Standards, the Companies Ordinance of Hong Kong and the Listing Rules. In preparing the financial statements for the year ended December 31, 2009, the directors have selected suitable accounting policies and applied them consistently, made judgements 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 that 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 auditor of the Company relating to their reporting responsibilities on the financial statements of the Company is set out in the Independent Auditor's Report on page 48.

One third of the members of the Board are independent non-executive directors which complies with the minimum number required under the Listing Rules. The Company has received from each of its independent non-executive directors written confirmation to confirm his independence to the Company and the Company considers that those directors are independent in accordance with Rule 3.13 of the Listing Rules.

Each of the non-executive directors of the Company is 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 the annual general meeting once every three years in accordance with the Code.

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. Alexander Anthony Arena
3. Lee Chi Hong, Robert
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 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, among 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 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, 2009, the Remuneration Committee met on one occasion. The attendance of individual directors at the committee meeting is set out in the table on page 28.

The following is a summary of work performed by the Remuneration Committee during 2009:

A. reviewed the remuneration of the executive directors and the non-executive directors of the Company and made recommendations to the Board that the same be approved;

B. approved the payments of completion bonus for three executive directors and an incentive bonus for an executive director; and

C. reviewed the existing terms of reference of the Remuneration Committee and considered that no revision was required.

Details of the remuneration of each director are set out in the financial statements on pages 82 to 84.

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, among 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, 2009, the Nomination Committee met on one occasion. The attendance of individual directors at the committee meeting is set out in the table on page 28.

The following is a summary of work performed by the Nomination Committee during 2009:

A. advised the Board on the directors who were due to retire pursuant to the applicable laws of Bermuda, the Company's bye-laws and the Code and recommended their re-election to the Board; and

B. reviewed the existing terms of reference of the Nomination Committee and considered that no revision was 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 due 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 auditor. 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 auditor.

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

CORPORATE GOVERNANCE REPORT

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

1. Prof Wong Yue Chim, Richard *(Chairman)*

2. Cheung Kin Piu, Valiant

3. Dr Allan Zeman

The Audit Committee is provided with sufficient resources to discharge its duties and meets regularly with management, internal auditor and external auditor and reviews their reports. During the year ended December 31, 2009, the Audit Committee met on two occasions. The attendance of individual directors at the committee meetings is set out in the table on page 28.

The following is a summary of work performed by the Audit Committee during 2009:

A. reviewed the financial statements of the Company for the year ended December 31, 2008 and the related annual results announcement and auditor's report; and made recommendations to the Board that the same be approved;

B. reviewed the report of the external auditor and made recommendations to the Board for their re-appointment at the 2009 annual general meeting;

C. reviewed the financial statements of the Company for the six months ended June 30, 2009 and the related interim results announcement and made recommendations to the Board that the same be approved;

D. reviewed external auditor's reports to the Audit Committee and their terms of engagement, a communications plan and an audit plan for the Group for the financial year ended December 31, 2009;

E. reviewed various internal audit reports;

F. reviewed the existing terms of reference of the Audit Committee and made recommendations to the Board that certain revisions in line with the amendment of the Listing Rules were required and that the same be approved;

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

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

In addition, the Audit Committee reviewed the financial statements for the year ended December 31, 2009 and the related annual results announcement and auditor's report, and recommended that the Board approve the same.

EXTERNAL AUDITOR

The Group's external auditor is PricewaterhouseCoopers. During the year ended December 31, 2009, 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$5.9 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	1.8
Others	1.1
Total non-audit services fees	2.9

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 records of Board meetings and Board Committees meetings held during the year ended December 31, 2009 are set out below:

	Meetings attended/held in 2009				
Directors	**Board**	**Audit Committee**	**Nomination Committee**	**Remuneration Committee**	**AGM**
Executive directors					
Li Tzar Kai, Richard	**4/4**	—	**1/1**	**1/1**	**0/1**
Alexander Anthony Arena	**4/4**	—	—	—	**1/1**
Lee Chi Hong, Robert	**4/4**	—	—	—	**1/1**
Lam Yu Yee	**4/4**	—	—	—	**1/1**
James Chan	**4/4**	—	—	—	**1/1**
Gan Kim See, Wendy	**4/4**	—	—	—	**1/1**
Independent non-executive directors					
Cheung Kin Piu, Valiant	**4/4**	**2/2**	**1/1**	**1/1**	**1/1**
Prof Wong Yue Chim, Richard	**4/4**	**2/2**	**1/1**	**1/1**	**1/1**
Dr Allan Zeman *(Note I)*	**3/4**	**1/2**	**1/1**	—	**1/1**
Tsang Link Carl, Brian *(Note II)*	**1/4**	**1/2**	—	—	**0/1**

Notes

I. Appointed as a member of the Audit Committee on June 11, 2009.

II. Retired as a director and resigned as a member of the Audit Committee on June 11, 2009.

INVESTOR RELATIONS

The Company encourages two-way communications 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. Inquiries 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 on page 130 of this annual report.

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

STAFF TRAINING AND DEVELOPMENT

In 2009, the Group continued to enhance and improve the standard among employees. The Group provided training courses for employees or sponsored employees to attend courses organised by third parties, with the total number of training hours exceeding 4,200 hours. Training courses were designed to assist employees to better comply with the Group's policies and standards and improve their career prospects within the Group. Such courses included customer service enhancement programs, 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 of compliance and regulatory issues.

COMMUNITY

The Group proactively participated in and sponsored various charitable or community projects last year. The Group has been a sponsor of the CyberRun for Rehab since inception in 2004 to help raise funds for the Hong Kong Society for Rehabilitation. The Group also continued sponsorship of the Cyberport Venture Capital Forum in 2009, the theme of which was about building a business that is profitable, creative, sustainable and socially responsible.

CORPORATE GOVERNANCE REPORT

ENVIRONMENT

The Group is committed to sustainability and seeks to promote environment-friendly measures in its operations. This includes adoption of green building design features such as energy and water efficiency, the requirement for the Group's property development contractors to use environment-friendly and reusable materials to reduce construction waste and the implementation of an environmental management plan during site operation.

In 2009, certain subsidiaries of the Group continued satisfactory operation of the Bureau Veritas Certification for the ISO 9001:2000 standard 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

CHENG Wan Seung, Ella
Company Secretary

Hong Kong, March 9, 2010

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, 2009.

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, 2009 are set out in the accompanying consolidated statement of comprehensive income on page 50.

The board of directors of the Company (the "Board") did not declare an interim dividend for the six months ended June 30, 2009 (2008: Nil).

The Board did not recommend the payment of a final dividend for the year ended December 31, 2009 (2008: Nil).

The Board has recommended the payment of a special dividend of HK$1.32 (2008: Nil) per ordinary share or an aggregate amount of approximately HK$3,178 million (2008: Nil) for the year ended December 31, 2009, subject to the approval of shareholders of the Company at the forthcoming annual general meeting, to shareholders whose names appear on the register of members of the Company on May 4, 2010. Such special dividend is payable on or around May 17, 2010.

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 on page 128.

SUBSIDIARIES

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

FIXED ASSETS

Details of movements in investment properties, property, plant and equipment, properties under development/held for sale/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 on page 51 and note 26 to the consolidated financial statements respectively.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2009, the aggregate sales attributable to the Group's five largest customers represented approximately 21.2 per cent of the Group's total sales, while the sales to the Group's largest customer accounted for approximately 5.7 per cent of the Group's total sales. The aggregate purchases attributable to the Group's five largest suppliers represented approximately 28 per cent of the Group's total purchases, while the purchases from the Group's largest supplier accounted for approximately 8.7 per cent of the Group's total purchases.

For the year ended December 31, 2009, none of the director of the Company, their associates nor any shareholders of the Company (which have, to the knowledge of the directors of the Company, owned more than 5 per cent of the Company's issued share capital) had any interest in the Group's major customers or suppliers.

REPORT OF THE DIRECTORS

DIRECTORS

The directors of the Company 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
James Chan
Gan Kim See, Wendy

Independent Non-Executive Directors
Cheung Kin Piu, Valiant
Prof Wong Yue Chim, Richard, SBS, JP
Dr Allan Zeman, GBS, JP
Tsang Link Carl, Brian (retired on June 11, 2009)

In accordance with bye-law 87 of the Company's bye-laws, Lee Chi Hong, Robert shall retire by rotation at the forthcoming annual general meeting and, being eligible, will offer himself for re-election.

In addition, each of the non-executive directors is appointed for a term of two years. As Prof Wong Yue Chim, Richard and Dr Allan Zeman were re-elected as directors at the annual general meeting in 2008, they will retire at the forthcoming annual general meeting and, being eligible, will 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 confirming his independence to the Company and the Company considers that they are independent in accordance with the terms of the independence guidelines set out in 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").

DIRECTORS' SERVICE CONTRACTS

No director of the Company 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, 2009, 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 corporation (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, 2009, 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, which indirectly holds approximately 61.53 per cent of the issued share capital of the Company as at December 31, 2009.

Name of director/ chief executive	Number of ordinary shares: Personal interests	Family interests	Corporate interests	Other interests	Number of underlying shares held under equity derivatives	Total	Approximate percentage of issued share capital
Li Tzar Kai, Richard	—	—	271,666,824 *(Note I(a))*	1,697,873,335 *(Note I(b))*	—	1,969,540,159	29.08%
Alexander Anthony Arena	760,000	—	—	—	9,600,200 *(Note II)*	10,360,200	0.15%
Lee Chi Hong, Robert	992,600 *(Note IV(a))*	511 *(Note IV(b))*	—	—	5,000,000 *(Note III)*	5,993,111	0.09%
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 237,919,824 shares and Eisner Investments Limited held 33,747,000 shares. Li Tzar Kai, Richard owned 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 112,935,177 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 112,935,177 shares of PCCW held by PCGH; and

(iii) a deemed interest in 1,548,211,301 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 75.74% interest. Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Li Tzar Kai, Richard was also deemed to be interested in 0.91% of PCRD through Hopestar Holdings Limited, a company wholly-owned by Li Tzar Kai, Richard. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 1,548,211,301 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) 9,600,000 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

Notes: – 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, 2009, 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 as at 01.01.2009	Number of options: Outstanding as at 12.31.2009
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	—
	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	—
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	—
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.

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

As at December 31, 2009, 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, 2009 are as follows:

1. Outstanding options as at January 1, 2009 and as at December 31, 2009

					Number of options	
Category of participant	Date of grant	Vesting period	Exercisable period	Exercise price HK$	Outstanding as at 01.01.2009	Outstanding as at 12.31.2009
Directors 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	5,000,000

Note: All dates are shown month/day/year

2. Options granted during the year ended December 31, 2009

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

3. Options exercised during the year ended December 31, 2009

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

4. Options cancelled or lapsed during the year ended December 31, 2009

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

No share options have been granted under the 2005 share option scheme since its adoption.

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.

REPORT OF THE DIRECTORS

INTERESTS AND SHORT POSITIONS IN SHARES OF SUBSTANTIAL SHAREHOLDERS

1. Interests in the Company

As at December 31, 2009, 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	Approximate percentage of issued share capital
PCCW	Beneficial owner	2,153,555,555 *(Note I)*	89.45%
Elliott Capital Advisors, L.P.	Interest of controlled corporations	479,363,400 *(Note II)*	19.91%
Peter Cundill & Associates (Bermuda) Ltd.	Investment manager	124,952,000	5.19%
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%

Notes:

I. These interests represented (a) an interest in 1,481,333,333 shares in the Company ("Shares") held by Asian Motion Limited, a wholly-owned subsidiary of PCCW; and (b) an interest in respect of 672,222,222 underlying Shares 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. Elliott Capital Advisors, L.P. has direct or indirect control over The Liverpool Limited Partnership and Elliott International, L.P. and is therefore deemed to control the exercise of the voting power of the 191,745,360 Shares held by The Liverpool Limited Partnership and the 287,618,040 Shares held by Elliott International, L.P..

III. Daniel Saul Och has control over Och-Ziff Capital Management Group LLC which has control over an investment manager OZ Management, L.P. and the former two are therefore deemed to control the voting power of the 121,447,152 Shares held in aggregate by OZ Management, L.P. and its wholly-owned subsidiaries and other entities controlled by it.

INTERESTS AND SHORT POSITIONS IN SHARES OF SUBSTANTIAL SHAREHOLDERS – CONTINUED

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

As at December 31, 2009, 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, 2009, 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, 2009, 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)*

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN COMPETING BUSINESS – CONTINUED

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.

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.

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.

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 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.

CHARITABLE DONATIONS

During the year, the Group made charitable donations in the aggregate amount of approximately HK$6 million (2008: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

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.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS

Since the publication of the Company's annual report for the year ended December 31, 2008, the Group had entered into (or continued to be a party to) certain transactions which are "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 with PCCW group during the year are as follows:

Continuing connected transactions

I. As disclosed in the Company's announcement dated March 29, 2007, that day PCPD Facilities Management Limited ("PCPD FM"), a wholly-owned subsidiary of the Company, and Reach Networks Hong Kong Limited ("Reach Networks"), a wholly-owned subsidiary of Reach Ltd., a 50:50 joint venture between Telstra Corporation Limited and PCCW, entered into two agreements for the provision of the facilities management services (the "FM Services Agreement") and lease and tenant management services (the "LTM Services Agreement") to Reach Networks at the fees calculated in accordance with the agreements, subject to the annual caps 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 of the term of the agreements by giving 3 months' prior notice in writing to PCPD FM. The aggregate fees charged by PCPD FM under the FM Services Agreement and the LTM Services Agreement for the period from January 1, 2009 to December 31, 2009 were approximately HK$22.5 million and HK$0.3 million respectively.

II. As disclosed in the Company's announcement dated December 6, 2007, that day PCPD FM and PCCW Services Limited ("PCCW Services"), a wholly-owned subsidiary of PCCW, entered into a renewal agreement to replace the agreement (which expired on December 5, 2007) for the provision of facilities management, project management, corporate and asset management services to PCCW Services at the fees 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 fees charged by PCPD FM for the period from January 1, 2009 to December 31, 2009 were approximately HK$48.7 million.

CONNECTED TRANSACTIONS – CONTINUED

Continuing connected transactions – Continued

III. As disclosed in the Company's announcement dated May 30, 2008, that day the Company and PCCW Services entered into a master goods and services agreement (the "2008 Master Agreement") which sets out the framework for the provision of certain goods and services by the PCCW group to the Group. The categories of goods and services which were provided pursuant to the 2008 Master Agreement for the period from June 1, 2008 to December 31, 2010 (both dates inclusive) were (i) Telephony, (ii) Information Technology and (iii) Other Services (non-administrative corporate services).

The aggregate contract amount for each category of transactions involved under the 2008 Master Agreement for the period from January 1, 2009 to December 31, 2009 were set out below:

Category of Services	Approximate aggregate contract amount for the financial year ended December 31, 2009	Annual Cap for the financial year ended December 31, 2009
	HK$'000	*HK$'000*
Telephony	1,142	1,210
Information Technology	5,932	8,400
Other Services (non-administrative corporate services)	538	4,700

IV. As disclosed in the Company's announcement dated September 2, 2008, that day 北京京威房地產開發有限公司 (Beijing Jing Wei House and Land Estate Development Co. Ltd.*) ("BJJW") as lessor, a wholly-owned subsidiary of the Company, entered into a lease agreement (the "Lease Agreement") with 電訊盈科(北京)有限公司朝陽分公司 (PCCW (Beijing) Company Limited Chaoyang Branch*) ("PBL Chaoyang Branch") as lessee, a wholly-owned subsidiary of PCCW, for renewal of the lease of Unit 17B on basement level 1 of IBM Tower of PCP Beijing for a term of one year from August 1, 2008 to July 31, 2009 at a monthly rental of RMB2,703.20. All leases of PCP Beijing between the Group and the PCCW group ("PCP Beijing Leases") were required to be aggregated for each financial year. The annual cap for PCP Beijing Leases for the financial year ended December 31, 2009 was RMB5.3 million and the aggregate value of the PCP Beijing Leases for the period from January 1, 2009 to December 31, 2009 was approximately RMB4.5 million.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS – CONTINUED

Continuing connected transactions – Continued

The independent non-executive directors of the Company have reviewed and confirmed that the continuing connected transactions for the financial year ended December 31, 2009 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 the terms available to or from independent third parties; and

C. in accordance with the relevant agreements governing them on the terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

In addition, the auditor of the Company has confirmed to the Board in writing that, in respect of the continuing connected transactions for the financial year ended December 31, 2009:

A. all such transactions had been approved by the Board;

B. the transactions referred to in items I and II above involved the provision of goods and services by the Group and were conducted in accordance with the relevant pricing policies of the Group;

C. all such transactions were entered into in accordance with the terms of the relevant agreements governing them; and

D. none of the non-exempt continuing connected transactions had exceeded the caps disclosed in the Company's announcements dated March 29, 2007, December 6, 2007, May 30, 2008 and September 2, 2008.

RELATED PARTY TRANSACTIONS

Details of the material related party transactions undertaken by the Group in the normal course of business are set out in note 35 to the consolidated financial statements. Those related party transactions which constituted connected transactions/continuing connected transactions under the Listing Rules have complied with the applicable requirements of the Listing Rules.

PUBLIC FLOAT

Based on information that is available to the Company, as at the date of this report, the percentage of shares held by the public has fallen to approximately 18.56 per cent, which is below the minimum percentage prescribed under Rule 8.08 of the Listing Rules (the "Minimum Prescribed Percentage"). The shortfall arose because Elliott Capital Advisors, L.P. held 19.91 per cent shareholdings in the Company and is hence a substantial shareholder and a connected person of the Company. The Company will take steps to restore its public holdings to the Minimum Prescribed Percentage as soon as practicable. Further announcement will be made in due course once there is concrete progress in the restoration of the public float of the Company. Details of the shareholdings of the substantial shareholders in the Company as at December 31, 2009 are disclosed under the section "**Interests and Short Positions in Shares of Substantial Shareholders**" in this report.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the corporate governance report on pages 22 to 30 of this annual report.

AUDITOR

The financial statements for the financial year ended December 31, 2009 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 auditor of the Company will be proposed at that meeting.

On behalf of the Board

CHENG Wan Seung, Ella
Company Secretary

Hong Kong, March 9, 2010

* *For identification only*

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道會計師事務所

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

TO THE SHAREHOLDERS OF PACIFIC CENTURY PREMIUM DEVELOPMENTS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Pacific Century Premium Developments Limited (the "Company") and its subsidiaries (the "Group") set out on pages 50 to 127, which comprise the consolidated and company balance sheets as at December 31, 2009, and the consolidated statement of comprehensive income, 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, 2009 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 9, 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2009

HK$ million	Note(s)	2009	2008
Turnover	4, 5	**4,222**	9,943
Cost of sales		**(3,032)**	(8,181)
Gross profit		**1,190**	1,762
General and administrative expenses		**(610)**	(526)
Other income		**210**	2
Other gains/(losses), net	6	**176**	(11)
Deficit on revaluation of investment properties	14	**—**	(534)
Operating profit		**966**	693
Interest income		**11**	88
Finance costs	7	**(155)**	(140)
Profit before taxation	8	**822**	641
Income tax	11	**(228)**	(128)
Profit attributable to equity holders of the Company		**594**	513
Other comprehensive (loss)/income:			
Currency translation differences:			
Exchange differences on translating foreign operations		**24**	300
Less: Reclassification adjustments arose from disposal of subsidiaries	33	**(73)**	—
Other comprehensive (loss)/income for the year, net of tax		**(49)**	300
Total comprehensive income		**545**	813
Dividends			
Special dividend proposed after the balance sheet date	12	**3,178**	—
Earnings per share (expressed in Hong Kong cents per share)			
Basic	13	**24.68 cents**	21.29 cents
Diluted	13	**24.11 cents**	21.21 cents
Dividends per share (expressed in Hong Kong dollars per share)	12	**1.32 dollars**	—

The notes on pages 57 to 127 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2009

	2009						
HK$ million	Issued equity	Capital reserve	Currency translation reserve	Convertible notes reserve	Employee share-based compensation reserve	Retained earnings	Total
Balance at January 1, 2009	**4,321**	**(565)**	**812**	**769**	**17**	**3,083**	**8,437**
Total comprehensive income for the year	—	—	**(49)**	—	—	**594**	**545**
Payment under Acquisition Agreement dated March 5, 2004 (note 35(a)(iii))	—	—	—	—	—	**(71)**	**(71)**
Balance at December 31, 2009	**4,321**	**(565)**	**763**	**769**	**17**	**3,606**	**8,911**

	2008						
HK$ million	Issued equity	Capital reserve	Currency translation reserve	Convertible notes reserve	Employee share-based compensation reserve	Retained earnings	Total
Balance at January 1, 2008	4,321	(565)	512	769	17	2,570	7,624
Total comprehensive income for the year	—	—	300	—	—	513	813
Balance at December 31, 2008	4,321	(565)	812	769	17	3,083	8,437

The notes on pages 57 to 127 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2009

HK$ million	Note(s)	2009	2008
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	14	**3,866**	3,831
Property, plant and equipment	15	**181**	173
Properties under development	16(a)	**356**	626
Properties held for development	16(b)	**548**	860
Goodwill	17	**3**	96
Other receivables		**6**	4
Deferred income tax assets	28(b)	**13**	23
		4,973	5,613
Current assets			
Properties under development/held for sale	16(a)	**683**	2,402
Sales proceeds held in stakeholders' accounts	20(a)	**1,271**	6,994
Restricted cash	20(b), 29(b)	**949**	720
Trade receivables, net	20(c)	**172**	1,918
Prepayments, deposits and other current assets		**151**	125
Amounts due from fellow subsidiaries	35(c)	**42**	10
Amounts due from related companies	35(c)	**2**	2
Cash and cash equivalents	29(b)	**5,506**	1,654
		8,776	13,825

HK$ million	Note(s)	2009	2008
Current liabilities			
Current portion of long-term borrowings	21	**24**	24
Trade payables	20(d)	**45**	191
Accruals, other payables and deferred income	20(e)	**1,237**	1,600
Deposits received on sales of properties		**84**	469
Gross amounts due to customers for contract works	20(f)	**—**	5
Amounts due to fellow subsidiaries	35(c)	**6**	15
Amount payable to the HKSAR Government under the Cyberport Project Agreement	22	**833**	4,981
Current income tax liabilities		**102**	143
		2,331	7,428
Net current assets		**6,445**	6,397
Total assets less current liabilities		**11,418**	12,010
Non-current liabilities			
Long-term borrowings	21	**2,241**	2,105
Amount payable to the HKSAR Government under the Cyberport Project Agreement	22	**—**	1,195
Deferred income tax liabilities	28(a)	**266**	240
Other long-term liabilities		**—**	33
		2,507	3,573
Net assets		**8,911**	8,437

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2009

HK$ million	Note(s)	2009	2008
REPRESENTING:			
Issued equity	23	**4,321**	4,321
Reserves		**4,590**	4,116
		8,911	8,437

Approved by the board of directors on March 9, 2010 and signed on behalf of the Board by

Lee Chi Hong, Robert
Director

Alexander Anthony Arena
Director

The notes on pages 57 to 127 form part of these financial statements.

BALANCE SHEET

AS AT DECEMBER 31, 2009

HK$ million	Note	2009	2008
ASSETS AND LIABILITIES			
Non-current assets			
Investment in subsidiaries	18	**2,870**	2,870
Current assets			
Amounts due from subsidiaries	18	**6,782**	3,128
Current liabilities			
Accruals and other payables		**2**	1
Net current assets		**6,780**	3,127
Total assets less current liabilities		**9,650**	5,997
Net assets		**9,650**	5,997
REPRESENTING:			
Share capital	23(b)	**241**	241
Reserves	26	**9,409**	5,756
		9,650	5,997

Approved by the board of directors on March 9, 2010 and signed on behalf of the Board by

Lee Chi Hong, Robert
Director

Alexander Anthony Arena
Director

The notes on pages 57 to 127 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2009

HK$ million	Note	2009	2008
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES	29(a)	**3,134**	(155)
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(64)**	(97)
Proceeds from disposal of subsidiaries, net of cash disposed	33	**842**	51
Acquisition of property management and travel agency services operations of a subsidiary, net of cash acquired	34	**(3)**	—
Acquisition of a subsidiary	35(a)(ii)	**—**	(4)
Decrease in bank deposits with maturity more than three months		**—**	106
NET CASH GENERATED FROM INVESTING ACTIVITIES		**775**	56
FINANCING ACTIVITIES			
Payment under Acquisition Agreement dated March 5, 2004	35(a)(iii)	**(71)**	—
Proceeds from bank loan	21(b)	**11**	—
NET CASH USED IN FINANCING ACTIVITIES		**(60)**	—
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**3,849**	(99)
Exchange differences		**3**	(6)
CASH AND CASH EQUIVALENTS			
Balance at January 1,		**1,654**	1,759
Balance at December 31,	29(b)	**5,506**	1,654

The notes on pages 57 to 127 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2009 (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, 2009, 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 50 to 127 were approved by the board of directors (the "Board") on March 9, 2010.

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, 2009 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.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2009 (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 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.

Standards, amendments and interpretations effective from January 1, 2009

HKAS 1 (Revised) Presentation of Financial Statements

As a result of the adoption of HKAS 1 (Revised), details of change in equity during the year arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expenses are presented in the consolidated statement of comprehensive income. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any year presented. Comparative figures have been provided on a basis consistent with the new presentation requirements under HKAS 1 (Revised).

HKFRS 8 Operating Segments

HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management, and has resulted in additional reportable segments being identified and presented. Comparative figures have been provided on a basis consistent with the revised segment information.

Standards, amendments and interpretations effective from January 1, 2009 adopted by the Group but have no significant impact on the Group's financial statements

HKAS 23 (Revised)	Borrowing Costs
HKAS 32 (Amendment) and HKAS 1 (Amendment)	Puttable Financial Instruments and Obligations Arising on Liquidation
Amendments to HKFRS 1	First-time adoption of HKFRS and HKAS 27 – Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Share-based Payment Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Financial Instruments: Disclosures
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

b. Basis of preparation of the financial statements - Continued

Improvements to HKFRS – Amendments to:

HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 16	Property, Plant and Equipment
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 29	Financial Reporting in Hyperinflationary Economies
HKAS 31	Interests in Joint Ventures
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS 41	Agriculture

Other minor amendments to:

HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events After the Balance Sheet Date
HKAS 18	Revenue
HKAS 34	Interim Financial Reporting

The following new standards, amendments and interpretations have been issued but are not yet effective for the year ended December 31, 2009 and which the Group has not early adopted:

HKAS 1	Current/Non-current Classification of Convertible Instruments (effective for annual periods beginning on or after January 1, 2010)
HKAS 7	Classification of Expenditures on Unrecognised Assets (effective for annual periods beginning on or after January 1, 2010)
HKAS 17	Classification of Leases of Land and Buildings and Consequential amendment to HK-Int 4 – Determining whether an Arrangement contains a Lease (effective for annual periods beginning on or after January 1, 2010)
HKAS 24 (Revised)	Related Party Disclosures (effective for annual periods beginning on or after January 1, 2011)
HKAS 27 (Revised)	Consolidated and Separate Financial Statements (effective for annual periods beginning on or after July 1, 2009)

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2009 (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 new standards, amendments and interpretations have been issued but are not yet effective for the year ended December 31, 2009 and which the Group has not early adopted: - Continued

HKAS 32 (Amendment)	Classification of Rights Issues (effective for annual periods beginning on or after February 1, 2010)
HKAS 36	Unit of Accounting for Goodwill Impairment Test (effective for annual periods beginning on or after January 1, 2010)
HKAS 38	Additional Consequential Amendments arising from HKFRS 3 (revised) and Measuring Fair Value of an Intangible Asset Acquired in Business Combination (effective for annual periods beginning on or after July 1, 2009)
HKAS 39	Treating Loan Prepayment Penalties as Closely Related Derivatives, Cash Flow Hedge Accounting, Scope Exemption for Business Combination Contracts (effective for annual periods beginning on or after January 1, 2010)
HKAS 39 (Amendment)	Eligible Hedged Items (effective for annual periods beginning on or after July 1, 2009)
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards (effective for annual periods beginning on or after July 1, 2009)
HKFRS 2	Shared-based Payment (effective for annual periods beginning on or after January 1, 2010)
HKFRS 3 (Revised)	Business Combinations (effective for annual periods beginning on or after July 1, 2009)
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations (effective for annual periods beginning on or after July 1, 2009)
HKFRS 8	Disclosure of Information about Segment Assets (effective for annual periods beginning on or after January 1, 2010)
HKFRS 9	Financial Instruments (effective for annual periods beginning on or after January 1, 2013)
HK(IFRIC)-Int 9 and HKFRS 3 (revised)	Reassessment of Embedded Derivatives and Business Combination (effective for annual periods beginning on or after July 1, 2009)
HK(IFRIC)-Int 14	Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after January 1, 2011)
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after July 1, 2009)
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after July 1, 2009)
HK(IFRIC)-Int 18	Transfer of Assets from Customers (effective for transfers of assets from customers received on or after July 1, 2009)
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after July 1, 2010)

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.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

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 at 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 losses (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.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2009 (Amount expressed in Hong Kong dollars unless otherwise stated)

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 sales of development properties for which legally binding unconditional sales contracts were entered, revenue and profits are recognised upon completion of the development and when significant risks and rewards of ownership have been transferred. Deposits and instalments received from purchasers prior to this stage are included in current liabilities.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Contract revenue

Revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of estimated value of work done to date against total contract revenue.

(iv) 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.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

e. Operating leases

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

(i) Assets held for use in operating leases (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.

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 and the costs can be measured reliably. 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.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2009 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

f. Freehold land, property, plant and equipment and depreciation - Continued

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.

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

The useful lives of property, plant and equipment are reviewed, and adjusted if appropriate, at each balance sheet date.

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.

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 freehold land;
- property, plant and equipment;
- properties under development/held for sale/held for 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.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2009 (Amount expressed in Hong Kong dollars unless otherwise stated)

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 for sale 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.

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.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

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, net".

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 the balance sheet under "Trade receivables, net" 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 are 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 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2009 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

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.

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. Borrowings

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between the amount initially recognised, being the proceeds net of transaction costs, and the redemption value being recognised in the income statement over the period of the borrowings, using the effective interest method.

s. Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Discounts or premiums relating to borrowings, ancillary costs incurred in connection with arranging borrowings and exchange differences arising from foreign currency borrowings, to the extent that they are regarded as adjustments to interest costs, are recognised as expenses over the period of the borrowing.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2009 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

t. 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.

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.

u. 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.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

u. Employee benefits - Continued

(iii) The Group and PCCW operate share option schemes where employees (including directors) are granted options to acquire shares of the Company or PCCW at specified exercise prices. The fair value of the employee services received in exchange for the grant of the options is recognised as staff costs in the income statement with a corresponding increase in an employee share-based compensation reserve under equity. The fair value of the options granted is measured at grant date using the trinomial option pricing model, taking into account the terms and conditions upon which the options were granted, and spread over the respective vesting period during which the employees become unconditionally entitled to the options. At each balance sheet date, the Group revises its estimates of the number of share options that is expected to become vested. The impact of the revision of original estimates, if any, is recognised in the income statement with a corresponding adjustment to the employee share-based compensation reserve over the remaining vesting period. On vesting date, the amount recognised as staff costs is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the employee share-based compensation reserve). The equity amount is recognised in the employee share-based compensation reserve until either the share options are exercised (when it is transferred to the share premium account) or the share options expire (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.

v. 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.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2009 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES - CONTINUED

w. Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

x. Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the consolidated financial statements and the Company's 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

When the inflow of economic benefits associated with the property sales transaction is assessed to be probable and significant risks and rewards of ownership of properties are transferred to purchasers, the Group recognised revenue in respect of the properties sold.

Management made judgement on whether the economic benefits associated with the property sales transaction will flow to the Group. Likelihood of inflow of economic benefits to the Group is demonstrated by the purchaser's commitment to pay, which in turn is supported by substantial investment that gives the purchaser a stake in the property sufficient that the risk of loss through default motivates the purchaser to honour the obligation to the Group. Inflow of economic benefits associated with the property sales transaction is also assessed by considering location of the property and the prevailing market price of similar properties.

Management has also made judgement on when significant risks and rewards of ownership of properties are transferred to purchasers. Risk and rewards of ownership of properties are transferred to purchasers upon execution of legally binding unconditional sales contracts upon which the beneficial interest in the properties passes to the purchasers.

The judgement on the likelihood of inflow of economic benefits associated with the property sales transaction and the transfer of risks and rewards of ownership of properties would affect the Group's profits for the year and the carrying value of properties under developments/held for sale.

(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.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2009 (Amount expressed in Hong Kong dollars unless otherwise stated)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS - CONTINUED

b. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to 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 HKSAR Government under the Cyberport Project Agreement

Pursuant to the agreement dated May 17, 2000 entered into with the Government of the Hong Kong Special Administrative Region (the "HKSAR Government") ("Cyberport Project Agreement"), the HKSAR Government 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 HKSAR Government are part of the Group's costs of developing the Cyberport project.

The amount payable to the HKSAR Government 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 HKSAR Government, 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 2009 has resulted in the costs of properties sold recorded in the year ended December 31, 2009 being increased by HK$59 million.

Under the Cyberport Project Agreement, a Development Maintenance Account (the "DMA Account") is established for the provision of funds ("DMA Amount") for the upkeep and maintenance of certain facilities commonly available to both tenants and visitors at the commercial portion of the Cyberport project (note 16(a)(i)). In 2004, the DMA Amount provisionally assessed at HK$500 million, had been funded jointly by the HKSAR Government and the Group to the DMA Account.

According to the Cyberport Project Agreement, Hong Kong Cyberport Management Company Limited ("HKCMCL"), the entity established by the HKSAR Government, shall calculate the final assessment of the DMA Amount before the end of December 2009. Since the end of the year under review, the Group has entered into discussion with HKCMCL, of which the outcome is still uncertain. The Group has sought legal and other professional advice on this subject and in view of such advice, the management's assessment is that the provisional assessment of HK$500 million would be adequate for the purpose of the final assessment of the DMA Amount, and the liability to contribute additional funds to the DMA Account by the Group is remote. Accordingly, no additional provision for DMA Amount is made as at December 31, 2009. Since the final outcome of the discussion with HKCMCL is uncertain, should the final assessment figure of DMA Amount become different from the HK$500 million which management has estimated, provision will have to be made accordingly.

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, 2009, the fair value of the investment properties was HK$3,866 million.

(iii) 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.

(iv) Deferred income tax

While deferred income tax liabilities are provided in full on all taxable temporary differences, deferred income 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 income 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 income tax assets and income tax would be made. As at December 31, 2009, the total deferred income tax assets recognised was HK$41 million, with HK$28 million deferred income tax assets netted off against the deferred income tax liabilities recognised in the consolidated balance sheet (notes 28(a) and 28(b)).

(v) Goodwill impairment

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates related future cash flows of the cash generating units to which the goodwill is attached and appropriate discount rates. During the year, impairment loss for goodwill of HK$96 million was recognised. As at December 31, 2009, goodwill balance recognised in the consolidated balance sheet was HK$3 million.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2009 (Amount expressed in Hong Kong dollars unless otherwise stated)

4. TURNOVER

Turnover comprises revenues recognised in respect of the following businesses:

	The Group	
HK$ million	**2009**	2008
Property development	**3,855**	9,557
Property investment	**214**	230
Other businesses	**153**	156
	4,222	9,943

5. SEGMENT INFORMATION

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the year ended December 31 is set out below:

a. Business segments

	Property development in Hong Kong		Property investment in mainland China		Other businesses (note a)		Elimination		Consolidated	
HK$ million	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Revenue from external customers	**3,855**	9,551	**212**	230	**155**	162	**—**	—	**4,222**	9,943
Inter-segment revenue	**—**	—	**—**	1	**38**	38	**(38)**	(39)	**—**	—
Reportable segment revenue	**3,855**	9,551	**212**	231	**193**	200	**(38)**	(39)	**4,222**	9,943
Interest income	**2**	48	**5**	5	**—**	3	**—**	—	**7**	56
Unallocated interest income									**4**	32
Consolidated interest income									**11**	88
Finance costs	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—
Unallocated finance costs									**155**	140
Consolidated finance costs									**155**	140
Depreciation and amortisation	**2**	1	**13**	11	**15**	15	**—**	—	**30**	27
Unallocated depreciation and amortisation									**6**	3
Consolidated depreciation and amortisation									**36**	30
Impairment losses	**91**	33	**—**	—	**15**	10	**—**	—	**106**	43

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DECEMBER 31, 2009 (Amount expressed in Hong Kong dollars unless otherwise stated)

5. SEGMENT INFORMATION - CONTINUED

a. Business segments - Continued

	Property development in Hong Kong		Property investment in mainland China		Other businesses (note a)		Elimination		Consolidated	
HK$ million	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Profit/(loss) before taxation	**901**	1,310	**85**	(396)	**171**	(9)	**—**	—	**1,157**	905
Unallocated corporate expenses									**(335)**	(264)
Consolidated profit before taxation									**822**	641
Income tax	**163**	201	**26**	(80)	**33**	7	**—**	—	**222**	128
Unallocated income tax									**6**	—
Consolidated income tax									**228**	128
Addition to non-current segment assets during the period	**—**	—	**30**	13	**56**	140	**—**	—	**86**	153
Unallocated addition									**7**	13
Consolidated addition to non-current segment assets during the period									**93**	166
Segment assets	**3,113**	12,179	**4,323**	4,217	**1,204**	1,811	**—**	—	**8,640**	18,207
Unallocated corporate assets									**5,109**	1,231
Consolidated total assets									**13,749**	19,438
Segment liabilities	**2,092**	8,375	**322**	286	**65**	124	**—**	—	**2,479**	8,785
Unallocated corporate liabilities									**2,359**	2,216
Consolidated total liabilities									**4,838**	11,001

(a) Revenue from segments below the quantitative thresholds are attributable to six operating segments of the Group. Those segments include property development in Thailand and Japan, property management in Hong Kong and Japan, facilities management and ski operation. None of these segments has ever met any of the quantitative thresholds for determining reportable segments.

5. SEGMENT INFORMATION - CONTINUED

b. Geographical information

The following table sets out information about geographical location of (i) the Group's revenue from external customers and (ii) the Group's investment properties, property, plant and equipment, non-current properties under development, properties held under development, goodwill and other non-current receivables ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, the location of the operation to which they are allocated, in case of intangible assets and goodwill, and the location of operations.

	Revenue from external customers		Specified non-current assets	
HK$ million	**2009**	2008	**2009**	2008
Hong Kong (place of domicile)	**3,951**	9,659	**50**	107
Mainland China	**220**	235	**3,923**	4,529
Japan	**51**	49	**437**	428
Thailand	**—**	—	**550**	526
	4,222	9,943	**4,960**	5,590

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2009 (Amount expressed in Hong Kong dollars unless otherwise stated)

6. OTHER GAINS/(LOSSES), NET

	The Group	
HK$ million	**2009**	2008
Gain on disposal of subsidiaries (note 33)	**232**	4
Gain/(Loss) on rental guarantee	**40**	(12)
Impairment losses	**(96)**	(10)
Gain on derivative financial instrument	**—**	7
	176	(11)

7. FINANCE COSTS

	The Group	
HK$ million	**2009**	2008
Interest expenses:		
Convertible notes wholly repayable over two years, but not exceeding five years	**149**	—
Convertible notes wholly repayable after five years	**—**	140
Other borrowing costs	**6**	—
	155	140

8. PROFIT BEFORE TAXATION

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

	The Group	
HK$ million	**2009**	2008
Crediting:		
Gross rental income from investment properties	**214**	230
Other rental income	**6**	6
Less: outgoings	**(31)**	(26)
Other income from deposits forfeited	**209**	—
Charging:		
Cost of properties sold	**2,917**	8,070
Depreciation	**35**	21
Amortisation of leasehold land	**1**	9
Staff costs, included in:		
- cost of sales	**63**	52
- general and administrative expenses	**171**	146
Contributions to defined contribution retirement schemes, included in:		
- cost of sales	**3**	3
- general and administrative expenses	**11**	7
Auditors' remuneration	**4**	3
Operating lease rental of land and buildings, included in:		
- cost of sales	**2**	3
- general and administrative expenses	**40**	11
Operating lease rental of equipment	**1**	1
Deficit on revaluation of investment properties	**—**	534
Provision for impairment of trade receivables	**10**	33
Net foreign exchange (gain)/ loss	**(3)**	6

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2009 (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			
	2009				2008			
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 (note ii)	—	7,333	36,804	1,130	—	11,000	18,340	1,130
Alexander Anthony Arena (note i)	—	—	—	—	—	—	—	—
James Chan	—	3,326	1,544	349	—	3,298	2,778	346
Gan Kim See, Wendy	—	3,326	2,572	349	—	3,298	4,435	346
Lam Yu Yee	—	9,723	5,219	866	—	8,480	3,878	807
Independent Non-executive Directors								
Cheung Kin Piu, Valiant	200	—	—	—	200	—	—	—
Tsang Link Carl, Brian (note iii)	67	—	—	—	150	—	—	—
Prof Wong Yue Chim, Richard, SBS, JP	200	—	—	—	200	—	—	—
Dr. Allan Zeman, GBS, JP	200	—	—	—	200	—	—	—
	667	23,708	46,139	2,694	750	26,076	29,431	2,629

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. Offered to waive the basic salary and housing benefits of HK$3.67 million payable to him by a wholly-owned subsidiary (2008: Nil). Bonus payment was calculated in accordance with contractual term as stated in the employment contract.

iii. Resigned as an independent non-executive director on June 11, 2009.

iv. The total directors' emoluments for the year ended December 31, 2009 were HK$73 million (2008: HK$59 million).

b. Shared base 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								
	2009								
	Grant date	Exercise price of share options	Number of share options/ shares outstanding at beginning of year	Number of share options granted/ (lapsed)	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	—	—
	February 8, 2005	4.475	1,000,000	(1,000,000)	—	—	—	—	—
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	—	—
								—	—

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DECEMBER 31, 2009 (Amount expressed in Hong Kong dollars unless otherwise stated)

9. DIRECTORS' EMOLUMENTS - CONTINUED

b. Shared base compensation - Continued

				The Group 2008					
	Grant date	Exercise price of share options	Number of share options/ shares outstanding at beginning of year	Number of share options granted/ (lapsed)	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	—	—
	February 8, 2005	4.475	1,000,000	—	—	1,000,000	1,000,000	—	—
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	—	—
								—	—

i. Realised benefits

No director exercised share options in 2009 and 2008. 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 (2008: four) are directors whose emoluments are set out in note 9. Details of the emoluments of the remaining highest paid individual (2008: one) are as follows:

	The Group	
HK$ million	**2009**	2008
Salaries and other short-term employee benefits	—	3
Bonuses	**5**	1
	5	4

b. The emoluments of the remaining individual (2008: one) are within the emolument ranges as set out below:

	The Group Number of individuals	
	2009	2008
HK$3,900,001 – HK$4,000,000	—	1
HK$4,900,001 – HK$5,000,000	**1**	—
	1	1

The employees, whose emoluments are disclosed above, include senior executives who were also directors of the subsidiaries during the year. One director offered to waive the basic salary and housing benefits of HK$3.67 million payable to him by a wholly-owned subsidiary (2008: Nil).

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2009 (Amount expressed in Hong Kong dollars unless otherwise stated)

11. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5 per cent (2008: 16.5 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 jurisdictions.

	The Group	
HK$ million	**2009**	2008
Hong Kong profits tax		
- Provision for current year	**185**	222
- Over provision in respect of prior years	**—**	(9)
Overseas income tax		
- Provision for current year	**8**	30
- Over provision in respect of prior years	**(1)**	—
Deferred income tax relating to the origination and reversal of temporary differences (note 28)	**36**	(115)
	228	128

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

	The Group	
HK$ million	**2009**	2008
Profit before taxation	**822**	641
Notional tax on profit before taxation, calculated at 16.5 per cent (2008: 16.5 per cent)	**136**	106
Effect of different tax rate of subsidiaries operating overseas	**3**	(26)
Income not subject to taxation	**(1)**	(15)
Expenses not deductible for taxation purposes	**85**	55
Tax losses for which no deferred income tax asset was recognised	**18**	17
Utilisation of previously unrecognised tax losses	**(12)**	—
Over provision in respect of prior years	**(1)**	(9)
Income tax	**228**	128

12. DIVIDENDS

HK$ million	2009	2008
Final dividend proposed after the balance sheet date (2008: Nil)	—	—
Special dividend of HK$1.32 per ordinary share proposed after the balance sheet date (2008: Nil)	**3,178**	—
	3,178	—

There was no final dividend paid for 2008. A special dividend for 2009 of HK$1.32 per ordinary share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting. The special dividend proposed after the balance sheet date for 2009 has not been recognised as a liability as at the balance sheet date.

13. EARNINGS PER SHARE

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

	2009	2008
Earnings (HK$ million)		
Earnings for the purpose of calculating the basic earnings per share	**594**	513
Finance costs on convertible notes	**149**	140
Earnings for the purpose of calculating the diluted earnings per share	**743**	653

	2009	2008
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating the basic earnings per share	**2,407,459,873**	2,407,459,873
Effect of dilutive potential ordinary shares on conversion of convertible notes and employee share options	**672,222,222**	672,479,242
Weighted average number of ordinary shares for the purpose of calculating the diluted earnings per share	**3,079,682,095**	3,079,939,115

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2009 (Amount expressed in Hong Kong dollars unless otherwise stated)

14. INVESTMENT PROPERTIES

	The Group	
HK$ million	2009	2008
Balance at January 1,	3,831	4,153
Transfer from properties under development	27	—
Disposal of subsidiaries (note 33)	—	(49)
Deficit on revaluation of investment properties	—	(534)
Exchange differences	8	261
Balance at December 31,	3,866	3,831

Investment properties were revalued as at December 31, 2009 by an independent valuer. The basis of valuation for investment properties was open market value. The fair value written down in 2008 amounted to HK$534 million was charged to the consolidated income statement as "Deficit on revaluation of investment properties".

In the consolidated income statement, cost of sales includes direct operating expenses of HK$27 million (2008: HK$26 million) that generate rental income while direct operating expenses of HK$12 million (2008: HK$11 million) relating to investment properties that were unlet.

The carrying amount of investment properties is analysed as follows:

	The Group	
HK$ million	2009	2008
Held in Hong Kong		
On long lease (over 50 years)	27	—
Held in mainland China		
On long lease (over 50 years)	722	748
On medium-term lease (10-50 years)	3,117	3,083
	3,866	3,831

15. PROPERTY, PLANT AND EQUIPMENT

	The Group			
HK$ million	Freehold land	Buildings and structures	Other plant and equipment	Total
At January 1, 2008				
At cost	3	6	113	122
Less: Accumulated depreciation	—	—	(62)	(62)
Net book value	3	6	51	60
Net book value at January 1, 2008	3	6	51	60
Additions	—	49	82	131
Disposal of subsidiaries (notes 33)	—	—	(2)	(2)
Depreciation	—	(1)	(20)	(21)
Exchange differences	1	1	3	5
Net book value at December 31, 2008	4	55	114	173
At December 31, 2008				
At cost	4	56	198	258
Less: Accumulated depreciation	—	(1)	(84)	(85)
Net book value	4	55	114	173
Net book value at January 1, 2009	**4**	**55**	**114**	**173**
Additions	—	**1**	**44**	**45**
Depreciation	—	**(3)**	**(32)**	**(35)**
Exchange differences	—	**(1)**	**(1)**	**(2)**
Net book value at December 31, 2009	**4**	**52**	**125**	**181**
At December 31, 2009				
At cost	**4**	**56**	**241**	**301**
Less: Accumulated depreciation	—	**(4)**	**(116)**	**(120)**
Net book value	**4**	**52**	**125**	**181**

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2009 (Amount expressed in Hong Kong dollars unless otherwise stated)

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

a. Properties under development/held for sale

	The Group	
HK$ million	**2009**	2008
Properties under development	**356**	957
Less: Properties under development classified as non-current assets	**(356)**	(626)
	—	331
Properties held for sale	**683**	2,071
Properties under development/held for sale classified as current assets	**683**	2,402

i. Pursuant to the 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 HKSAR Government at no consideration. The associated costs incurred have formed part of the development costs of the residential portion. The construction of residential portion of the Cyberport project was completed in November 2008.

ii. As at December 31, 2009, there was no leasehold land included in properties under development (2008: HK$713 million).

b. Properties held for development

	The Group	
HK$ million	**2009**	2008
Balance at January 1,	**860**	816
Transfer to properties under development	**(336)**	—
Exchange differences	**24**	44
Balance at December 31,	**548**	860

Properties held for development as at December 31, 2009 represents freehold land in Thailand, for which the Group intends for future development projects. 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, whose financial statements have been consolidated into these financial statements (note 19).

17. GOODWILL

	The Group	
HK$ million	**2009**	2008
Costs:		
Balance at January 1,	**96**	93
Acquisition of the property management and travel agency services operations of a subsidiary (note 34)	**3**	—
Exchange differences	**—**	3
Balance at December 31,	**99**	96
Accumulated impairment losses:		
Balance at January 1,	**—**	—
Impairment loss	**(96)**	—
Balance at December 31,	**(96)**	—
Carrying amount:		
Balance at December 31,	**3**	96

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17. GOODWILL - CONTINUED

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

	The Group	
HK$ million	**2009**	2008
Property development division	—	81
Other business - ski operation	—	15
Other business - property management and travel agency services operations	**3**	—
Balance at December 31,	**3**	96

Management has performed assessments on the recoverable amount of the above cash-generating units. 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 amounts of the ski operation and property management and travel agency services operations are determined based on the projected cash flow forecast of the businesses.

The impairment losses recognised during the year related to the property development division and ski operation. As the recoverable amount of these cash-generating units are less than the goodwill carrying amount, impairment losses are recognised during the year.

Management considered there is no impairment of goodwill in relation to the property management and travel agency services operations as at December 31, 2009.

18. INVESTMENT IN SUBSIDIARIES

	The Company	
HK$ million	**2009**	2008
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, 2009, the Group has financed the operations of certain of its entities in mainland China amounting to approximately US$111 million (2008: US$113 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, 2009 were HK$6,782 million (2008: HK$3,128 million).

19. 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
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[1]	The People's Republic of China	Property management	US$410,000	—	100%
北京裕澤諮詢服務有限公司[1]	The People's Republic of China	Consulting and property management	US$100,000	—	100%
Carlyle International Limited	Hong Kong	Entrustment work	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%
Dong Si (Holdings) Limited	Hong Kong	Financing and leasing	HK$1	—	100%
Harmony TMK	Japan	Property development	JPY1,000,000,000 (JPY100,000,000 specified capital and JPY900,000,000 preference shares)	—	100%

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19. 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	Indirectly
Ipswich Holdings Limited	British Virgin Islands	Investment holding	US$2	100%	—
Island South Property Management Limited	Hong Kong	Property management	HK$2	—	100%
Kabushiki Kaisha Niseko Management Service[2]	Japan	Property management and travel agency services	JPY10,000,000	—	100%
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 KK[3]	Japan	Ski operation	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 administrative services	HK$2	—	100%
PCPD Wealth Limited	Hong Kong	Investment holding	HK$1	—	100%
Pride Pacific Limited	Hong Kong	Financing	HK$2	—	100%

19. 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	Indirectly
Talent Master Investments Limited	British Virgin Islands/ Hong Kong	Property development	US$1	—	100%
Phang-nga Leisure Limited	Thailand	Property holding	THB2,000,000	—	39%
Phang-nga Paradise Limited	Thailand	Property holding	THB2,000,000	—	39%

Notes:

1 Represents a wholly foreign owned enterprise.

2 The subsidiary has accounting year end date of May 31. This subsidiary prepares, for the purpose of consolidation, financial statements as at the same date as the Group.

3 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

DECEMBER 31, 2008 (Amount expressed in Hong Kong dollars unless otherwise stated)

20. CURRENT ASSETS AND LIABILITIES

a. Sales proceeds held in stakeholders' accounts

The balance represents proceeds from the sales of properties of the Group's property development projects that are retained in bank accounts opened and maintained by stakeholders. For the amounts related to residential portion of Cyberport project, they 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$1,271million as at December 31, 2009 (2008: HK$6,994 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$936 million as at December 31, 2009 (2008: HK$720 million) held in specific bank accounts. The uses of the funds are specified in the Cyberport Project Agreement.

The remaining balance of HK$13 million (2008: Nil) represents amount held on behalf of properties owners whose properties are managed by the Group. The uses of the funds are specified in the agreements between the owners and the Group.

c. Trade receivables, net

	The Group	
HK$ million	**2009**	2008
Trade receivables	**205**	1,951
Less: Provision for impairment	**(33)**	(33)
Trade receivables, net	**172**	1,918

Trade receivables in respect of properties sold are payable by the purchasers pursuant to the terms of the sales contracts. Other trade receivables have a normal credit period ranges up to 30 days from the date of the invoice unless there is separate mutual agreement on extension of the credit period.

20. CURRENT ASSETS AND LIABILITIES - CONTINUED

c. Trade receivables, net - Continued

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

	The Group	
HK$ million	**2009**	2008
Hong Kong dollar	**162**	1,913
Renminbi	**1**	1
Japanese yen	**9**	4
	172	1,918

(i) Aging analysis of trade receivables

	The Group	
HK$ million	**2009**	2008
Current	**13**	1,742
One to three months	**—**	—
More than three months	**192**	209
	205	1,951

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20. CURRENT ASSETS AND LIABILITIES - CONTINUED

c. Trade receivables, net - Continued

(ii) Provision for receivable impairment

The movement in the provision for receivable impairment during the year, including specific and collective loss components, is as follows:

	The Group	
HK$ million	**2009**	2008
Balance at January 1,	**33**	—
Impairment loss recognised	**10**	33
Uncollectible amount written off	**(10)**	—
Balance at December 31,	**33**	33

(iii) Trade receivables of HK$205 million (2008: HK$1,951 million) are exposed to credit risk. Trade receivable of HK$192 million was impaired and the amount of provision was HK$33 million as at December 31, 2009. The other amounts in trade receivables balance relate to a number of independent customers for whom there is no recent history of default. These amounts are considered fully recoverable and not impaired.

As at December 31, 2009, no trade receivable was past due over three months but not impaired (2008: Nil).

d. Trade payables

An aging analysis of trade payables is set out below:

	The Group	
HK$ million	**2009**	2008
Current	**13**	191
One to three months	**32**	—
	45	191

20. CURRENT ASSETS AND LIABILITIES - CONTINUED

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.

f. Gross amounts due to customers for contract works

	The Group	
HK$ million	**2009**	2008
Contract costs incurred plus attributable profits less foreseeable losses	**794**	789
Less: Estimated value of work performed	**(794)**	(794)
	—	(5)

The total amount of progress billings, included in the estimated value of work performed as at December 31, 2009, was approximately HK$794 million (2008: HK$794 million).

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21. LONG-TERM BORROWINGS

	The Group	
HK$ million	**2009**	2008
Repayable within a period		
– not exceeding one year	**24**	24
– over two years, but not exceeding five years	**2,241**	—
– over five years	**—**	2,105
	2,265	2,129
Representing:		
HK$2,420 million tranche B convertible note due 2014 (note a)	**2,254**	2,129
Bank borrowings (note b)	**11**	—
	2,265	2,129
Secured	**11**	—
Unsecured	**2,254**	2,129

a. The tranche B convertible note due 2014 with a principal amount of HK$2,420 million or any part that may, at the discretion of PCCW or its designated subsidiary, the holder of the notes, be converted into 672,222,222 new shares of HK$0.10 of the Company each at a conversion price of HK$3.60 per share, subject to adjustment, 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.

The tranche B convertible note due 2014 may be redeemed at 120 per cent of the outstanding principal amount if conversion does not occur. The Company has granted rights to an indirect wholly-owned subsidiary to purchase 672,222,222 shares of the Company at HK$3.6 per share with expiry in 2014.

Interest expense on the tranche B convertible note due 2014 is calculated using the effective interest method by applying the effective interest rate of 6.87 per cent (2008: 6.87 per cent) to the liability component.

As at December 31, 2009, the convertible notes reserve amounted to HK$769 million (2008: HK$769 million).

21. LONG-TERM BORROWINGS - CONTINUED

b. On September 22, 2009, an indirect wholly-owned subsidiary of the Company entered into the RMB Facility Agreement (the “RMB Facility”) which the lender would make available a term loan facility up to the aggregate amount of RMB10 million. Any loan made under the RMB Facility must be repaid on or before September 24, 2012. The RMB Facility is secured by the assets owned by the indirect wholly-owned subsidiary. No voluntary prepayment of RMB Facility is required unless and until the HKD Facility (as stated below) has been discharged. On December 10, 2009, the indirect wholly-owned subsidiary made a drawdown of RMB10 million under the RMB Facility.

On September 22, 2009, an indirect wholly-owned subsidiary of the Company was granted a three-year revolving loan facility up to an aggregate amount of HK$2,800 million (the “HKD Facility”). Such facility is secured by the shares and assets of certain indirect wholly-owned subsidiaries. In case the RMB Facility is in default, the lenders under the HKD Facility could demand for immediate repayment of principal and interest accrued under the HKD Facility. No drawdown under this revolving loan facility was made by the Group as at December 31, 2009.

The HKD Facility is subjected to the fulfilment of covenants relating to certain balance sheet ratios of the Group, as are commonly found in lending arrangements with financial institutions. If the covenants were breached, the drawn down facilities would have become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group’s management of liquidity risk are set out in note 36(c). As at December 31, 2009, none of the covenants was breached.

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

	The Group		
	2009		
HK$ million	**Government share under the Cyberport Project Agreement (note a)**	**Others**	**Total**
Balance at January 1, 2009	**6,149**	**27**	**6,176**
Addition to amount payable	**996**	**3**	**999**
Settlement during the year	**(6,342)**	**—**	**(6,342)**
Balance at December 31, 2009 under current liabilities	**803**	**30**	**833**

	The Group		
	2008		
HK$ million	Government share under the Cyberport Project Agreement (note a)	Others	Total
Balance at January 1, 2008	6,886	33	6,919
(Deduction)/Addition to amount payable	(379)	1	(378)
Settlement during the year	(358)	(7)	(365)
Balance at December 31, 2008	6,149	27	6,176
Less: Amount classified as current liabilities	(4,954)	(27)	(4,981)
	1,195	—	1,195

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

a. Pursuant to the Cyberport Project Agreement (note 16(a)(i)), the HKSAR Government 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 HKSAR Government is considered as a part of the development costs for the Cyberport project. The amount payable to the HKSAR Government 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 HKSAR Government during the forthcoming year is classified as current liabilities.

b. Under the Cyberport Project Agreement, the provision of DMA Amount (note 3(b)(i)) for the upkeep and maintenance of certain facilities commonly available to both tenants and visitors at the commercial portion of the Cyberport project was provisionally assessed at HK$500 million and forms part of certain allowable costs incurred on the project, as stipulated under the terms and conditions of the Cyberport Project Agreement.

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, 2008, December 31, 2008, December 31, 2009	**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.

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23. ISSUED EQUITY - CONTINUED

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

	The Company	
	Number of shares	Nominal value HK$ million
Authorised:		
Ordinary shares of HK$0.10 each at January 1, 2008, December 31, 2008 and December 31, 2009	**10,000,000,000**	**1,000**
Issued and fully paid:		
Ordinary shares of HK$0.10 each at January 1, 2008, December 31, 2008 and December 31, 2009	**2,407,459,873**	**241**

24. EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement scheme

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.

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, 2009, are as follows:

(i) Movements in share options

	Number of options	
	2009	2008
Balance at January 1, and December 31,	**5,000,000**	5,000,000
Options vested at December 31,	**5,000,000**	5,000,000

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25. EQUITY COMPENSATION BENEFITS - CONTINUED

Share option scheme - Continued

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

Date of grant	Exercise period	Exercise price HK$	2009 Consideration received HK$	2009 Number of options	2008 Consideration received HK$	2008 Number of options
December 20, 2004	December 20, 2004 to December 19, 2014	2.375	**1**	**5,000,000**	1	5,000,000
			1	**5,000,000**	1	5,000,000

During the years ended December 31, 2009 and December 31, 2008, 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, 2009.

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

	2009 Average exercise price in HK$ per share	2009 Number of options	2008 Average exercise price in HK$ per share	2008 Number of options
Balance at January 1, and December 31,	**2.375**	**5,000,000**	2.375	5,000,000

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

The 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

2009

HK$ million	Share premium	Capital redemption reserve	Other reserve	Employee share-based compensation reserve	Retained earnings	Total
Balance at January 1, 2009	**3,882**	**1**	**769**	**17**	**1,087**	**5,756**
Total comprehensive income for the year	—	—	—	—	**3,724**	**3,724**
Payment under Acquisition Agreement dated March 5, 2004 (note 35(a)(iii))	—	—	—	—	**(71)**	**(71)**
Balance at December 31, 2009	**3,882**	**1**	**769**	**17**	**4,740**	**9,409**

The Company

2008

HK$ million	Share premium	Capital redemption reserve	Other reserve	Employee share-based compensation reserve	Retained earnings	Total
Balance at January 1, 2008	3,882	1	769	17	871	5,540
Total comprehensive income for the year	—	—	—	—	216	216
Balance at December 31, 2008	3,882	1	769	17	1,087	5,756

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27. EMPLOYEE SHARE-BASED COMPENSATION RESERVE

	The Group	
HK$ million	**2009**	2008
At January 1, and 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(u)(iii)).

28. DEFERRED INCOME TAX

a. The components of deferred income 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	Others	Total
At January 1, 2008	220	123	(17)	326
Charged/(Credited) to consolidated income statement (note 11)	28	(134)	4	(102)
Disposal of subsidiaries (note 33)	(1)	(3)	—	(4)
Exchange differences	13	8	(1)	20
At December 31, 2008	260	(6)	(14)	240
At January 1, 2009	**260**	**(6)**	**(14)**	**240**
Charged/(Credited) to consolidated income statement (note 11)	**31**	**—**	**(5)**	**26**
At December 31, 2009	**291**	**(6)**	**(19)**	**266**

28. DEFERRED INCOME TAX - CONTINUED

HK$ million	The Group 2009	2008
Deferred income tax liabilities recognised in the consolidated balance sheet	**294**	269
Less: Amount of deferred income tax assets netted off against deferred income tax liabilities recognised in the consolidated balance sheet	**(28)**	(29)
Balance at December 31,	**266**	240

b. The deferred income 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 income tax assets recognised in the consolidated balance sheet and the movements during the year are as follows:

HK$ million	The Group Tax losses	Others	Total
At January 1, 2008	—	10	10
Credited/(Charged) to consolidated income statement (note 11)	16	(3)	13
At December 31, 2008	16	7	23
At January 1, 2009	**16**	**7**	**23**
(Charged)/Credited to consolidated income statement (note 11)	**(16)**	**6**	**(10)**
At December 31, 2009	**—**	**13**	**13**

c. The Group has unrecognised estimated tax losses of HK$265 million as at December 31, 2009 (2008: HK$195 million) to be carried forward for deduction against future taxable profits. HK$128 million (2008: HK$45 million) tax losses relating to overseas companies would be expired within three to seven years from December 31, 2009, the remaining HK$137 million (2008: HK$150 million) tax losses are mainly relating to Hong Kong companies which can be carried forward indefinitely.

NOTES TO THE FINANCIAL STATEMENTS

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29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

a. Reconciliation of profit before taxation to net cash generated from/(used in) operating activities

	The Group	
HK$ million	**2009**	2008
Profit before taxation	**822**	641
Adjustments for:		
Interest income	**(11)**	(88)
Finance costs	**155**	140
Provision for receivable impairment	—	33
Gain on derivative financial instrument	—	(7)
Gain on disposal of subsidiaries	**(232)**	(4)
Depreciation	**35**	21
Amortisation of leasehold land	**1**	9
Impairment losses	**96**	10
Deficit on revaluation of investment properties	—	534
Operating profit before changes in working capital	**866**	1,289

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT - CONTINUED

a. Reconciliation of profit before taxation to net cash generated from/(used in) operating activities - Continued

	The Group	
HK$ million	**2009**	2008
Decrease/(Increase) in operating assets:		
- properties under development/held for sale	**1,625**	6,927
- other non-current receivables	**—**	9
- prepayments, deposits and other current assets	**(22)**	(63)
- sales proceeds held in stakeholders' accounts	**5,723**	(4,569)
- restricted cash	**(219)**	(145)
- trade receivables	**1,748**	(1,621)
- amounts due from fellow subsidiaries	**(32)**	—
- amounts due from related companies	**—**	1
Increase/(Decrease) in operating liabilities:		
- trade payables, accruals, other payables and deferred income	**(539)**	337
- deposits received on sales of properties	**(385)**	(1,475)
- gross amounts due to customers for contract work	**(5)**	(2)
- amounts due to fellow subsidiaries	**(9)**	—
- amount payable to the HKSAR Government under the Cyberport Project Agreement	**(5,343)**	(743)
- other long-term liabilities	**—**	(26)
Cash generated from/(used in) operations	**3,408**	(81)
Interest paid	**(45)**	(24)
Interest received	**12**	88
Tax paid		
- Hong Kong profits tax paid	**(237)**	(89)
- overseas income tax paid	**(4)**	(49)
Net cash generated from/(used in) operating activities	**3,134**	(155)

NOTES TO THE FINANCIAL STATEMENTS

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29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT - CONTINUED

b. Analysis of cash and cash equivalents

	The Group	
HK$ million	**2009**	2008
Cash and bank balances	**6,455**	2,374
Less: Restricted cash	**(949)**	(720)
Cash and cash equivalents at December 31,	**5,506**	1,654

30. COMMITMENTS

a. Capital

	The Group	
HK$ million	**2009**	2008
Authorised and contracted for	**18**	184
Authorised but not contracted for	**10**	60
	28	244

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

	The Group	
HK$ million	**2009**	2008
Investment properties	**25**	31
Property development for other projects	**2**	120
Property, plant and equipment	**1**	—
Property development for Cyberport project	**—**	91
Others	**—**	2
	28	244

30. COMMITMENTS - CONTINUED

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)

HK$ million	The Group 2009	2008
Within 1 year	**36**	19
After 1 year but within 5 years	**12**	9
	48	28

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

Equipment (as lessee)

HK$ million	The Group 2009	2008
Within 1 year	**5**	5
After 1 year but within 5 years	**2**	4
	7	9

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

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30. COMMITMENTS - CONTINUED

b. Operating leases - Continued

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

Land and buildings (as lessor)

	The Group	
HK$ million	**2009**	2008
Within 1 year	**180**	192
After 1 year but within 5 years	**143**	237
After 5 years	**18**	16
	341	445

31. CONTINGENT LIABILITIES

Save as disclosed elsewhere in the consolidated financial statement, contingent liabilities and the guarantees provided by the Group and the Company are set out as follows:

	The Group		The Company	
HK$ million	**2009**	2008	**2009**	2008
Performance guarantee	**—**	1	**—**	—

(i) The Company has provided a guarantee to the noteholder of the convertible notes (tranche B note due 2014) in respect of the performance of its indirect wholly-owned 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(a)). Such guarantee has no impact to the Group's consolidated financial statements.

(ii) On September 22, 2009, the Company and an indirect wholly-owned subsidiary had executed guarantees in favour of the lenders of a revolving loan facility, the HKD Facility, in the principal amount of HK$2,800 million granted to an indirect wholly-owned subsidiary. As at December 31, 2009, there was no drawdown under the HKD Facility (note 21).

32. BANKING FACILITY

Aggregate banking facilities as at December 31, 2009 were HK$2,811 million (2008: Nil) of which the unused facilities amounted to HK$2,800 million (2008: Nil). Summary of major borrowings is set out in note 21.

Security pledged for certain banking facilities includes:

	The Group	
HK$ million	**2009**	2008
Investment properties	**3,839**	—

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33. DISPOSAL OF SUBSIDIARIES

On October 5, 2009, the Group disposed the entire share capital of two subsidiaries to a third party.

On March 31, 2008, the Group disposed the entire share capital of two subsidiaries to a wholly-owned subsidiary of PCCW.

The net assets of these disposed subsidiaries at the date of disposal were as follows:

	The Group	
HK$ million	**2009**	2008
Net assets disposed of:		
Investment properties (note 14)	—	49
Property, plant and equipment (note 15)	—	2
Properties under development	**672**	—
Prepayments, deposits and other current assets	**20**	1
Cash and cash equivalents	**71**	—
Accruals, other payables and deferred income	**(7)**	(1)
Current income tax liabilities	**(2)**	—
Deferred income tax liabilities (note 28(a))	—	(4)
	754	47
Consideration settled by cash	**(913)**	(51)
	(159)	(4)
Reclassification adjustment from currency translation reserve	**(73)**	—
Gain on disposal (note 6)	**(232)**	(4)

	The Group	
HK$ million	**2009**	2008
Consideration settled by cash	**913**	51
Cash and cash equivalents of disposed subsidiaries	**(71)**	—
Cash inflow on disposal of subsidiaries	**842**	51

34. BUSINESS COMBINATION

On November 30, 2009, the Group acquired 100 per cent of the share capital of Kabushiki Kaisha Niseko Management Service, a company incorporated in Japan, which provides property management and travel agency services operations in Hokkaido, Japan. The acquired business contributed revenues of approximately HK$1 million and no net profit to the Group for the period from November 30, 2009 to December 31, 2009.

	The Group
HK$ million	2009
Purchase consideration in cash for property management and travel agency services operations of Kabushiki Kaisha Niseko Management Service	4
Fair value of net assets acquired (note (a))	(1)
Goodwill (note 17)	3

The goodwill is attributable to future profit generated from the property management and travel agency services operations.

(a) The assets and liabilities of the property management and travel agency services operations as at November 30, 2009 were as follows:

HK$ million	Fair value	Acquiree's carrying amount
Other non-current receivables	1	1
Restricted cash	10	10
Trade receivables, net	2	2
Prepayments, deposits and other current assets	1	1
Cash and cash equivalents	1	1
Trade payables	(1)	(1)
Accruals, other payables and deferred income	(13)	(13)
Net assets acquired	1	1

NOTES TO THE FINANCIAL STATEMENTS

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34. BUSINESS COMBINATION - CONTINUED

	The Group
HK$ million	2009
Purchase consideration settled in cash	(4)
Cash and cash equivalents of property management and travel agency services operations acquired	1
Cash outflow on acquisition of property management and travel agency services operations	(3)

There was no material acquisition during the year ended December 31, 2008 except as disclosed in note 35(a)(ii).

35. MATERIAL RELATED PARTY TRANSACTIONS

The Group is controlled by PCCW which owns 61.53 per cent (2008: 61.53 per cent) of the Company's shares. The remaining 38.47 per cent (2008: 38.47 per cent) of the shares are held by public and by a substantial shareholder.

35. MATERIAL RELATED PARTY TRANSACTIONS - CONTINUED

In addition to the transactions and balances disclosed elsewhere in these financial statements, 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	**2009**	2008
Sales of services:		
– Fellow subsidiaries		
Facility management services	**49**	56
Office leases rental	**7**	8
– Related companies		
Facility management services	**23**	23
Office leases rental	**2**	3
Purchases of services:		
– Fellow subsidiaries		
Corporate services	**6**	3
Office sub-leases	**8**	9
Information technology and other logistic services	**18**	29
– Related companies		
Other services	**3**	1

(i) On April 17, 2008, the Company announced that the proposed privatisation of the Company made by Picville Investments Limited ("Picville"), a wholly-owned subsidiary of PCCW, was not approved by the independent shareholders at the court meeting held on that day. Accordingly, all the related costs incurred by the Company for the proposed privatisation amounted to approximately HK$11 million were borne by Picville.

(ii) On July 31, 2008, the Group purchased a wholly-owned subsidiary of PCCW for a consideration of HK$3.9 million. This subsidiary has a 10 per cent equity interest in a company which is one of the major tenants of the investment properties in Beijing owned by the Group.

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35. MATERIAL RELATED PARTY TRANSACTIONS - CONTINUED

(iii) The Group made a payment of approximately HK$71 million to PCCW, the ultimate holding company of the Group, being the retained profit of Cyber-Port Limited ("CPL") accrued up to May 10, 2004 in accordance with the Acquisition Agreement dated March 5, 2004 entered into between the Group and PCCW. This payment is conditional on the conditions that (i) CPL has repaid the loan owed to PCCW, and (ii) CPL has surplus funds for distribution. The accrued profit of CPL can be adjusted downwards by claims, losses or damages incurred and the amount will be finalised upon the final completion of the Cyberport Project pursuant to Cyberport Project Agreement (see note 22 for details). This arrangement was disclosed on page 16 of the Company's circular to the shareholders dated April 2, 2004 and approved by the shareholders on April 28, 2004. The above conditions were fulfilled during the year.

The above transactions were carried out after negotiations between the Group and the related parties in the ordinary course of business. 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.

b. Details of key management compensation

	The Group	
HK$ million	**2009**	2008
Salaries and other short-term employee benefits	**23**	26
Bonuses	**46**	29
Directors' fee	**1**	1
Post-employment benefits	**3**	3
	73	59

The remuneration of executive directors employed by PCCW, the ultimate holding company of the Group, is borne by PCCW.

35. MATERIAL RELATED PARTY TRANSACTIONS - CONTINUED

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

	The Group	
HK$ million	**2009**	2008
Receivables from related parties:		
– Fellow subsidiaries	**42**	10
– Related companies	**2**	2
	44	12
Payables to related parties:		
– Fellow subsidiaries	**6**	15

d. Loan from a fellow subsidiary

The loan from a fellow subsidiary represents the face value of the convertible notes (tranche B note due 2014) with principal value of HK$2,420 million (see note 21(a) for details). The movement of the face value of the loan from a fellow subsidiary during the year are as follows:

	The Group	
HK$ million	**2009**	2008
Balance at January 1,	**2,645**	2,596
Interest expenses	**24**	24
Interest paid	**(24)**	(24)
Provision for redemption premium	**48**	49
Balance at December 31,	**2,693**	2,645

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36. 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. 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 dollars, US dollars 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 that is significant to the Group was as follows:

	The Group	
	2009	2008
HK$ million	**US dollar**	US dollar
Cash and cash equivalents	**1,712**	764

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.

36. FINANCIAL RISK MANAGEMENT - CONTINUED

a. Foreign exchange risk - Continued

Sensitivity analysis for foreign currency exposure

A 5 per cent appreciation of Hong Kong dollar against the following currencies at December 31, 2009 would have decrease in profit after tax and equity by the amounts shown below. This represents the translation of financial assets and liabilities 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 2008.

	The Group			
	2009		2008	
HK$ million	**Decrease in profit after tax**	**Decrease in other comprehensive income for currency translation**	Decrease in profit after tax	Decrease in other comprehensive income for currency translation
US dollar	**(73)**	**—**	(38)	—
Renminbi	**—**	**(202)**	—	(231)
Thai baht	**—**	**(28)**	—	(26)
Japanese yen	**—**	**(27)**	—	(15)

The Company is not exposed to foreign exchange risk.

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 businesses, certain customers are fellow subsidiaries and related parties which the credit risk is relatively low and other individual customers are with good repayment history. 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.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 (Amount expressed in Hong Kong dollars unless otherwise stated)

36. FINANCIAL RISK MANAGEMENT - CONTINUED

b. Credit risk- Continued

As at December 31, 2009, the Group has a certain concentration of credit risk as 94 per cent (2008: 53 per cent) of the total trade receivables was due from three customers.

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

Cash and cash equivalents

	The Group	
HK$ million	**2009**	2008
Aa2	**820**	655
Aa3	**2,741**	36
A1	**1,077**	600
A2	**777**	309
Baa1	**8**	34
Baa2	**79**	—
Unrated	**4**	20
Balance as at December 31,	**5,506**	1,654

Restricted cash

	The Group	
HK$ million	**2009**	2008
Aa2	**936**	720
Unrated	**13**	—
Balance as at December 31,	**949**	720

36. 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, 2009						
Trade payables	**45**	**—**	**—**	**—**	**45**	**45**
Accruals and other payables	**1,234**	**—**	**—**	**—**	**1,234**	**1,234**
Amounts due to fellow subsidiaries	**6**	**—**	**—**	**—**	**6**	**6**
Amount payable to the HKSAR Government under the Cyberport Project Agreement	**833**	**—**	**—**	**—**	**833**	**833**
Long-term borrowings	**24**	**24**	**2,973**	**—**	**3,021**	**2,265**
At December 31, 2008						
Trade payables	191	—	—	—	191	191
Accruals and other payables	1,600	—	—	—	1,600	1,600
Amounts due to fellow subsidiaries	15	—	—	—	15	15
Amount payable to the HKSAR Government under the Cyberport Project Agreement	4,981	1,195	—	—	6,176	6,176
Long-term borrowings	24	24	73	2,913	3,034	2,129
Other long-term liabilities	—	33	—	—	33	33

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008 (Amount expressed in Hong Kong dollars unless otherwise stated)

36. FINANCIAL RISK MANAGEMENT - CONTINUED

d. Interest rate risks

Apart from the cash and cash equivalents which are for working capital, the Group has no significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises primarily from long-term borrowings. Borrowings at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

The following table details the interest rate profile of the Group's borrowings at the balance sheet date.

	The Group			
	2009		2008	
	Effective interest rate	**HK$ million**	Effective interest rate	HK$ million
Fixed rate borrowings:				
Loan from a fellow subsidiary (note 35(d))	**6.87%**	**2,693**	6.87%	2,645
Variable rate borrowings:				
Bank borrowings (note 21(b))	**5.40%**	**11**	—	—
Total borrowings		**2,704**		2,645

The contractual repricing date of the variable rate borrowings as at December 31, 2009 is three months.

As the balance of the variable rate borrowings is not significant, the effect on change in interest rate to the Group is minimal.

37. 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.

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 the loan from a fellow subsidiary and bank loan less cash and cash equivalents. Adjusted capital comprises the issued equity and retained earnings.

The debt-to-adjusted capital ratio decreased from 13 per cent as at December 31, 2008 to a net cash position as at December 31, 2009. Management's strategy is to maintain the debt-to-adjusted capital ratio within 20 per cent. The debt-to-adjusted capital ratios at both December 31, 2009 and 2008 were as follows:

	The Group	
HK$ million	**2009**	2008
Loan from a fellow subsidiary (note 35(d))	**2,693**	2,645
Bank loan	**11**	—
Less: Cash and cash equivalents (note 29(b))	**(5,506)**	(1,654)
Net (cash)/debt	**(2,802)**	991
Issued equity	**4,321**	4,321
Add: Retained earnings	**3,606**	3,083
Adjusted capital	**7,927**	7,404
Debt-to-adjusted capital ratio	**N/A**	13%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements, except for the financial covenant requirements under the loan facilities agreements with external parties.

FIVE YEAR FINANCIAL SUMMARY

Results

HK$ million	2009	2008	2007	2006	2005
TURNOVER BY PRINCIPAL ACTIVITY					
Property development	**3,855**	9,557	2,800	6,953	4,821
Property investment	**214**	230	235	228	233
Other businesses	**153**	156	99	82	73
	4,222	9,943	3,134	7,263	5,127
Operating profit	**966**	693	728	914	615
(Finance costs)/Interest income, net	**(144)**	(52)	142	246	95
Profit before taxation	**822**	641	870	1,160	710
Income tax	**(228)**	(128)	(86)	(195)	(113)
Profit attributable to equity holders of the Company	**594**	513	784	965	597

Assets and Liabilities, as at December 31,

HK$ million	2009	2008	2007	2006	2005
Total non-current assets	**4,973**	5,613	5,953	6,482	5,610
Total current assets	**8,776**	13,825	14,406	8,940	15,034
Total current liabilities	**(2,331)**	(7,428)	(8,592)	(4,878)	(11,320)
Net current assets	**6,445**	6,397	5,814	4,062	3,714
Total assets less current liabilities	**11,418**	12,010	11,767	10,544	9,324
Total non-current liabilities	**(2,507)**	(3,573)	(4,143)	(3,861)	(3,567)
Net assets	**8,911**	8,437	7,624	6,683	5,757

SCHEDULE OF PRINCIPAL PROPERTY

Address	Gross site areas (sq.m.)	Gross floor areas (sq.m.)	Use	Category of the lease*	Percentage held by the Group
PROPERTY 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%

* 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 00432.

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
Prof Wong Yue Chim, Richard, SBS, JP
Dr Allan Zeman, SBS, JP

COMPANY SECRETARY

Cheng Wan Seung, Ella

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