Pacific Century
Premium Developments
盈科大衍地產發展

STOCK CODE: 00432

ANNUAL REPORT 2012

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", SEHK: 00008), Pacific Century Premium Developments Limited ("PCPD" or the "Group", SEHK: 00432) is mainly engaged in developing and managing premium property and infrastructure projects, as well as investing in premium-grade buildings, in the Asia-Pacific region.

PROPERTY DEVELOPMENT AND INVESTMENT

In Hong Kong, PCPD completed the signature luxury residential project – Bel-Air at the end of 2008. This has since become one of the most prestigious developments in the city. The Group has also developed ONE Pacific Heights, a prime residential project situated in the western part of Hong Kong Island.

In Mainland China, Pacific Century Place – the Group's premium-grade investment property in the Chaoyang district of Beijing – is the preferred location for many renowned corporations, esteemed retailers and international tenants.

The Group is continuously exploring potential investment opportunities throughout Asia and around the world. In line with this strategy, it has drawn up long-term plans for the development of world-class all-season resorts in Hokkaido, Japan, and Phang-nga, southern Thailand.

PROPERTY AND ASSET MANAGEMENT

Drawing on its considerable experience and expertise, the Group provides regional property and asset management services and corporate services covering Grade-A commercial, luxury residential and retail properties.

STATEMENT FROM THE CHAIRMAN

We strive to identify premium property and related projects with development potentials, with a particular focus on South East Asia.

Over the last few months of 2012, there has been improvement in market sentiments despite the uncertainties that were affecting the global economy. The US Federal Reserve has renewed its pledge to support the growth of the US economy by keeping interest rates at exceptionally low levels and by implementation of new rounds of quantitative easing.

Availability of liquidity and fear of inflation are conducive to investment in real estate. Interest rates in Hong Kong are likely to remain at relatively low levels in the near future whilst some Asian countries also cut their interest rates and this should render support for the momentum of property market in those Asian countries.

Hong Kong property prices continued to soar during the first three quarters of last year. The HKSAR government's response to the market's growing exuberance was to roll out several rounds of measures, which were aimed at stabilising property prices in Hong Kong. It should, however, take a longer period of time for the effectiveness to be seen.

Given that the Group's residential units in Bel-Air were sold out, the Bel-Air project has come to a successful ending, marking a new development phase of PCPD. Apart from focusing on our overseas projects in Phang-nga, Thailand and Hokkaido, Japan, we strive to identify premium property and related projects with development potentials, as well as other investment opportunities, in Hong Kong, China, and any other suitable cities elsewhere, with a particular focus on South East Asia.

On behalf of the Board, I would like to take this opportunity to express our heartfelt gratitude to the management team and all staff members for their continued hard work and dedication during the past year.

Richard Li
Chairman

February 25, 2013

STATEMENT FROM THE CHIEF EXECUTIVE OFFICER

Property prices in Hong Kong continued to rise during the first three quarters of 2012 and the Group has sold all of its remaining houses at Villa Bel-Air during this period.

The Group has achieved a consolidated turnover of approximately HK$1,184 million for the financial year ended December 31, 2012. This represents a decrease of approximately 44 per cent on the Group's turnover of approximately HK$2,126 million for 2011.

The Group's consolidated operating profit for 2012 amounted to approximately HK$399 million, as compared to approximately HK$328 million for 2011.

Consolidated net profit for 2012 totalled approximately HK$67 million, as compared to approximately HK$62 million for 2011. Basic earnings per share were approximately 3.58 Hong Kong cents, as compared to approximately 2.58 Hong Kong cents for 2011.

The Board of Directors has not recommended a final dividend for the year ended December 31, 2012.

For 2012, it was a major concern as to how China's economy would perform. However, there are signs that the economy has begun to rebound by encouraging figures for export and consumption in China. In Asia, the central banks in the region will probably maintain their monetary easing policies to avoid any serious economic downturn, therefore, property prices in the region are expected to remain firm.

Property prices in Hong Kong continued to rise during the first three quarters of 2012 and the Group has sold all of its remaining houses at Villa Bel-Air during this period.

The designing work for the project is continuing for the first phase of the Hanazono all-season resort in Hokkaido, Japan. The planning for the project in Phang-nga, southern Thailand, is also making good progress and has reached a very advanced stage.

For each of the abovementioned projects, the investment scale is substantial and hence it would take a long time before the project would generate any revenue. However, we believe that these premium-grade resort projects may attract positive responses from clients once they are marketable. Pacific Century Place in Beijing continues to be our major source of income prior to the completion of other projects.

Robert Lee
Deputy Chairman and
Chief Executive Officer

February 25, 2013

KEY BUSINESS STRATEGIES

As a property developer that is principally engaged in developing and managing premium properties, as well as investment in premium-grade buildings in Hong Kong and across the Asia Pacific Region, our strategic objective is to create and enhance value for our shareholders.

For this purpose, we embrace four key business strategies:

1. *Maintain long-term growth and profitability by developing and investing in premium-grade properties*

We are committed in seeking premium and suitable sites in prestigious locations in Hong Kong, China, with an emphasis on the South East Asia region, which enjoys rapid economic growth, and worldwide for developing projects with space similar to the scale of Bel-Air, our first ever property development project in Hong Kong.

2. *Establish and enhance our competitive edge in Asia's real estate markets by leveraging on our brand and our experience and expertise in building a luxury residential complex as exemplified by our development in Hong Kong*

We intend to replicate our success in Hong Kong and maximize the strengths of our brand through development projects in Hong Kong and elsewhere in the Asia Pacific region.

3. *Identify suitable investment opportunities in Hong Kong, Mainland China and other prosperous economies in the Asia Pacific region and around the world*

We are proactively seeking suitable investment opportunities in countries that are enjoying rapid economic growth – particularly in the Asia Pacific region – which may bring us favourable returns.

4. *Maintain a solid and healthy financial position*

We will continue to strive to maintain a healthy financial status with a solid cash balance and an efficient debt/equity ratio that will enable us to finance our existing projects and proceed with potential investments.

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 ("Company") and its subsidiaries (together with the company, "Group") for the year ended December 31, 2012 is set out below.

BUSINESS REVIEW

Property development

The Group's revenue from property development in Hong Kong for the year ended December 31, 2012 amounted to approximately HK$791 million as compared to approximately HK$1,710 million for the previous year.

In Hong Kong, the Group has sold all of the remaining houses at Villa Bel-Air. The revenue and profits from the sale of such houses will be recognised in accordance with the appropriate accounting standards.

In January 2013, the seventeenth batch of net surplus proceeds from the Cyberport project in the amount of approximately HK$301 million was allocated between the Government of the Hong Kong Special Administrative Region ("HKSAR Government") and the Group in accordance with the Cyberport Project Agreement. As a result, the HKSAR Government received approximately HK$194 million while the Group retained approximately HK$107 million.

As for the Group's overseas projects, the progress of the detailed designs of Hanazono all-season resort project in Hokkaido, Japan, is on schedule. As for the project in Phang-nga, Southern Thailand, the master plan for the project has reached an advanced stage.

Property investment in Mainland China

The Group's investment property, namely, Pacific Century Place, is located at a premium location in Beijing, China. The gross floor area being let by the Group is approximately 169,900 square metres ("lettable area") and the tenants of the property comprise corporations, retailers and residential tenants. The average occupancy rate of the lettable area was approximately 64 per cent for the year ended December 31, 2012 which has taken into account of the increase of vacant space upon the expiry of the lease for the department store.

The Group's gross rental income of such investment property amounted to approximately HK$239 million for 2012, as compared to approximately HK$260 million in 2011.

Other businesses

Other businesses of the Group include property management in Hong Kong, Mainland China and Japan, as well as the Hanazono all-season resort operation. The revenue from these other businesses amounted to approximately HK$154 million for 2012, as compared to approximately HK$156 million for the previous year.

FINANCIAL REVIEW

Review of results

The consolidated turnover of the Group was approximately HK$1,184 million for 2012, representing a decrease of approximately 44 per cent from approximately HK$2,126 million in 2011. Such decrease was due to decrease in the revenue from property sale in 2012.

The Group's consolidated gross profit for 2012 was approximately HK$553 million, representing a decrease of approximately 34 per cent from approximately HK$841 million in 2011. The decrease in consolidated gross profit was a result of the decrease in turnover.

The general and administrative expenses were in total approximately HK$491 million for 2012, representing a decrease of 15 per cent from approximately HK$580 million in 2011. There are certain savings achieved in marketing costs and professional fees as compared to the level of expenditures in 2011 while certain staff costs were categorised as addition to the development projects. In addition, the increase in fair value of investment properties as recorded for this year amounted to approximately HK$343 million which was higher than the HK$43 million recorded in last year. Direct expenses (amounting to approximately HK$27 million) in relation to the share repurchase and bonus share issue exercise in 2012 were charged to issued equity in accordance with the Companies Act 1981 of Bermuda and applicable accounting standards.

Due to the above reasons, the Group's consolidated operating profit for 2012 increased to approximately HK$399 million, as compared to approximately HK$328 million for 2011.

As a result, the Group recorded a consolidated net profit after taxation of approximately HK$67 million for 2012, as compared to approximately HK$62 million for 2011. Basic earnings per share during the year were 3.58 Hong Kong cents, as compared to 2.58 Hong Kong cents for 2011.

In accordance with the applicable Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, the revenue and profits from the sale of property development are and would be recognised on completion of a 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, 2012, the Group held current assets of approximately HK$3,208 million (December 31, 2011: HK$4,789 million), comprising properties held for sale, cash and cash equivalents, sales proceeds held in stakeholders' accounts, and restricted cash. The decrease in current assets reflects the decrease in cash and bank deposits; such decrease was mainly attributable to the payment of the total consideration of approximately HK$1,526 million by the Company to the shareholders who accepted the share buyback offer as described and defined below ("Offer") for completing the repurchase of shares in accordance with the terms of the Offer. For details of the result of the Offer, please refer to the announcement dated May 16, 2012. Properties held for sale in current assets decreased from approximately HK$456 million as at December 31, 2011, to approximately HK$215 million as at December 31, 2012. Cash and cash equivalents amounted to approximately HK$829 million as at December 31, 2012 (December 31, 2011: HK$2,855 million). The amount of sales proceeds held in stakeholders' accounts increased by approximately 7 per cent from HK$632 million as at December 31, 2011 to approximately HK$678 million as at December 31, 2012. Restricted cash increased from approximately HK$703 million as at December 31, 2011 to approximately HK$1,319 million as at December 31, 2012.

As at December 31, 2012, the Group's total current liabilities amounted to approximately HK$1,377 million, as compared to approximately HK$1,345 million as at December 31, 2011.

Capital structure, liquidity and financial resources

As at December 31, 2012, the Group's borrowings amounted to approximately HK$2,839 million, as compared to total borrowings of HK$2,799 million as at December 31, 2011. The increase was caused by the recognition of amortised redemption premiums of HK$49 million for the 2014 Convertible Note held by PCCW-HKT for the principal of HK$2,420 million, and netted off by HK$9 million bank loan repayment during the year. As at December 31, 2012, the Group's borrowings comprised the 2014 Convertible Note which (a) carries a fixed interest rate of 1 per cent per annum and (b) will become repayable at 120 per cent of the outstanding principal amount at maturity in May 2014. As the 2014 Convertible Note is held by a subsidiary of the Company's major shareholder, it has not been included in the total debt for the calculation of the debt-to-equity ratio of the Group. As at December 31, 2012, the debt-to-equity ratio (excluding such 2014 Convertible Note) was not provided (as at December 31, 2011: 0.1 per cent). If such 2014 Convertible Note is not converted in full prior to the due date on May 9, 2014 and the redemption amount is not fully paid, the amount due under it on such due date could be financed by the 2019 Convertible Note subscribed by PCCW-HKT under the subscription agreement made on March 2, 2012 as approved by independent shareholders at the special general meeting of May 2, 2012.

The Group's business transactions, assets and liabilities were mainly denominated in Hong Kong dollars. Revenue denominated in Renminbi and Japanese Yen accounted for approximately 22 per cent and 8 per cent of the Group's total turnover respectively. The assets of the Group in Mainland China, Japan and Thailand

MANAGEMENT'S DISCUSSION AND ANALYSIS

represented approximately 62 per cent, 7 per cent and 7 per cent of the Group's total assets respectively.

All of the Group's borrowings were denominated in Hong Kong dollars and Renminbi. Cash and bank deposits were held mainly in US dollars, Renminbi and Hong Kong dollars, and the remainder were in Thai Baht and Japanese Yen. As the Group had certain foreign operations, its net assets were exposed to the risk of foreign currency exchange rate fluctuation. The Group's currency exchange rate exposure with respect to these operations is mainly relating to Renminbi, Thai Baht and Japanese Yen.

Cash used in operating activities in 2012 was approximately HK$426 million, while cash generated from its operating activities in 2011 was approximately HK$804 million.

Income tax

The Group's income tax for 2012 was approximately HK$165 million, as compared to approximately HK$131 million for 2011. The increase of income tax was mainly a result of increase in deferred tax recognised on the revaluation surplus of investment properties.

Encumbrances on assets

As of December 31, 2012, certain investment properties of the Group with an aggregate carrying value of approximately HK$5,831 million (December 31, 2011: HK$5,424 million) were pledged and mortgaged to banks to secure banking facilities for the Group.

Contingent liabilities

One of the Group's indirect wholly-owned subsidiaries has agreed to reimburse to one of its lessees such that in case the alteration of its properties could not be carried out in order to allow the expansion of the existing leased areas of the lessee, the indirect wholly-owned subsidiary would purchase the refurbishment at the carrying value from the lessee up to RMB10 million, provided that the lessee serves termination notice due to the aforesaid reason. As at the reporting date, the estimated carrying value is up to approximately RMB6 million.

EMPLOYEES AND REMUNERATION POLICIES

As at December 31, 2012, the Group employed a total number of 433 staff in Hong Kong and overseas. The remuneration policies of the Group are in line with prevailing industry practices. Bonuses are paid on a discretionary basis taking into account factors such as performance of individual employees and the Group's performance as a whole. The Group provides comprehensive employee benefits, including medical insurance, a choice of a provident fund or a mandatory provident fund as well as training programmes. The Group is also a participating member of the PCCW employee share incentive award schemes.

The share option scheme that the Company adopted on March 17, 2003 ("2003 Share Option Scheme") was terminated on May 13, 2005, and was replaced with a new share option scheme which was adopted on May 23, 2005 ("New Share Option Scheme"), following its approval by PCCW's shareholders. The New Share Option Scheme is valid and effective for a period of 10 years from the date of its adoption while the outstanding options granted before the adoption of the New Share Option Scheme would continue to apply the terms of the 2003 Share Option Scheme until the expiry of such outstanding options.

DIVIDENDS

The Board did not recommend the payment of a final dividend for the year ended December 31, 2012 (2011: Nil).

The Board did not declare an interim dividend for the year ended December 31, 2012 (2011: Nil).

CLOSURE OF REGISTER OF MEMBERS AND CLOSURE OF REGISTER OF NOTEHOLDERS

The Company's register of members will be closed from May 6, 2013 to May 8, 2013, both days inclusive during which period no transfer of shares will be effected. In order to be entitled to attend and vote at the forthcoming annual general meeting of the Company, all transfers, accompanied by the relevant share certificates, should be lodged with the branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on May 3, 2013.

The Company's register of noteholders of bonus convertible notes will be closed from May 6, 2013 to May 8, 2013, both days inclusive, during which period no transfer of bonus convertible notes will be effected. In order to be entitled to attend at the forthcoming annual general meeting of the Company, all transfers, accompanied by the relevant note certificates, should be lodged with the bonus convertible note registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on May 3, 2013.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

With the approval by independent shareholders at the special general meeting of May 2, 2012, the Company has implemented a conditional cash offer (made by Anglo Chinese Corporate Finance, Limited on behalf of the Company) to repurchase for cancellation up to 926,126,540 issued ordinary shares of HK$0.10 each held by the shareholders of the Company ("Offer"). In relation to the Offer, PCCW Group had given undertaking not to accept the same. Following the close of the Offer on May 16, 2012, a total of 824,684,851 issued ordinary shares of HK$0.10 each were repurchased and cancelled by the Company in May 2012. For details of the result of the Offer, please refer to the announcement dated May 16, 2012.

Save as aforesaid, there was no purchase, sale or redemption by the Company or any of its subsidiaries of the listed securities of the Company for the year ended December 31, 2012.

OUTLOOK

The strength of global economic growth will be tested in 2013 by the continued weakness of Europe's economies as well as the potential risk stemming from the debt ceiling in the United States.

Major economies, such as US and Japan, are adopting quantitative easing policies in an attempt to prevent an economic downturn. The central banks of some Asia Pacific countries will probably maintain their monetary easing policies in the near future, or keep their interest rates at relatively low levels. The region's property prices are therefore expected to remain firm.

The year 2013 marks the beginning of a new chapter for the Group, since all of its residential units in Hong Kong have been sold. Henceforth, the Group will focus on its existing overseas projects and it will also examine other new investment opportunities in Hong Kong, China and any other suitable cities elsewhere which are enjoying economic prosperity and the affluent population of which is rapidly growing, with a particular focus on South East Asia. The Group believes that its brand as a premium property developer is its most valuable intangible asset, and that forms a solid foundation for its future projects in Hong Kong and in other Asian countries.

Designing works are continuing for the first phase of the Group's Hanazono all-season resort project in Hokkaido, Japan. The planning for the project in Phang-nga, Southern Thailand, has reached a very advanced stage and is also making good progress. Both of these overseas projects will require substantial investment lead-time before they will contribute any income to the Group.

With the new banking facility agreement being entered into in October 2012, the Group has adequate resources for meeting the financial needs involved in developing the abovementioned projects and potential new projects. However, the Group will maintain a cautious approach as the global economy is expected to remain volatile in 2013.

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

LI Tzar Kai, Richard
Chairman

Mr Li, aged 46, 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 of PCPD Board. He became a director of PCPD in May 2004. He also holds positions in the following companies:

(1) Chairman and Executive Director of PCCW Limited ("PCCW");
(2) Chairman of PCCW's Executive Committee;
(3) a member of PCCW's Nomination Committee of the PCCW board;
(4) Executive Chairman and Executive Director of HKT Limited ("HKT") and HKT Management Limited, the trustee-manager of the HKT Trust;
(5) Chairman of HKT's Executive Committee;
(6) a member of HKT's Nomination Committee of the HKT board;
(7) Chairman and Chief Executive of the Pacific Century Group; and
(8) Chairman and Executive Director of Singapore-based Pacific Century Regional Developments Limited ("PCRD"), and the Chairman of PCRD's Executive Committee.

Mr Li is a Non-Executive Director of The Bank of East Asia, Limited. He is also a member of the Center for Strategic and International Studies' International Councillor's Group in Washington, D.C., and a member of the Global Information Infrastructure Commission. Mr Li was awarded the Lifetime Achievement Award by the Cable & Satellite Broadcasting Association of Asia in November 2011.

LEE Chi Hong, Robert
Deputy Chairman and Chief Executive Officer

Mr Lee, aged 61, is an executive director, the deputy chairman, the chief executive officer of PCPD and a member of PCPD's Executive Committee. He became a director of PCPD in May 2004. He is also an executive director of PCCW and a member of PCCW's Executive Committee.

Mr Lee was previously an executive director of Sino Land Company Limited ("Sino Land"), at which his responsibilities included sales, finance, acquisitions, investor relations, marketing and property management. Prior to joining Sino Land, Mr Lee was a senior partner at Deacons in Hong Kong, where he specialised in banking, property development, corporate finance and dispute resolution in Hong Kong and mainland China. Before that, Mr Lee 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 had also served as a member of the panel of arbitrators of the China

International Economic and Trade Arbitration Commission of the China Council for the Promotion of International Trade in Beijing.

Mr Lee is a member of the International Council of the Louvre as well as Ambassador for the Louvre in China.

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

LAM Yu Yee
Deputy Chief Executive Officer and
Chief Financial Officer

Mr Lam, aged 51, is an executive director, the deputy chief executive officer, the chief financial officer of PCPD and a member of PCPD's Executive Committee. 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 and 2003, Mr Lam was an executive director and the group chief financial officer of Sino Land. Prior to joining Sino Land, he had worked in 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

Mr Chan, aged 59, is an executive director, the project director of PCPD and a member of PCPD's Executive Committee. He became a director of PCPD in August 2005. Mr Chan is responsible for managing various property projects of PCPD and its subsidiaries. He was responsible for the project execution of the Cyberport project and has overall responsibility for all aspects of the construction works. Mr Chan has become an independent non-executive director of Beijing Properties (Holdings) Limited since June 2011.

Prior to joining PCCW in October 2002, Mr Chan was a practising architect and had worked for a major developer in Hong Kong, with comprehensive experience in design, planning and land matters, design development and construction management of major investment properties, which included a wide range of industrial and warehousing, commercial, retail and residential developments in Hong Kong and overseas. Mr Chan possesses a wide spectrum of experience in the property industry and has been active in the property business for more than 34 years.

BOARD OF DIRECTORS

Mr Chan holds a Bachelor of Arts in Architectural Studies degree from HKU, a Bachelor of Architecture degree from University of Dundee in Scotland and an Executive Master of Business Administration degree from Tsinghua University. He is qualified as the Authorised 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 Australian Institute of Architects.

GAN Kim See, Wendy

Ms Gan, aged 47, 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 sales and marketing of projects in Hong Kong and overseas.

Ms Gan's 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 HKU and is currently a member of the Court of HKU. She also holds 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. She sits on the Management Board of HKU School of Professional and Continuing Education and is an Honorary Advisor of HKU Foundation for Educational Development and Research. Ms Gan received a Diploma in Surveying from the College of Estate Management, United Kingdom and is a member of the Royal Institution of Chartered Surveyors, the Hong Kong Institute of Surveyors and the Real Estate Developers Association of Hong Kong. Ms Gan is also an individual member (Appraisers Group) of China Institute of Real Estate Appraisers and Agents.

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHEUNG Kin Piu, Valiant

Mr Cheung, aged 67, is an independent non-executive director of PCPD, the chairman of PCPD's Remuneration Committee of the Board and a member of PCPD's Audit Committee and Nomination Committee of the Board. 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 People's Republic of China ("PRC"). Mr Cheung 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.

Mr Cheung is a fellow member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants. He is currently an independent non-executive director of the following listed companies in Hong Kong:

(1) Dah Chong Hong Holdings Limited;
(2) The Bank of East Asia, Limited ("BEA"); and
(3) Vitasoy International Holdings Limited.

In addition, Mr Cheung is also an independent non-executive director of The Bank of East Asia (China) Limited, a non-listed company and a wholly-owned subsidiary of BEA.

Prof WONG Yue Chim, Richard, SBS, JP

Prof Wong, aged 60, is an independent non-executive director of PCPD, the chairman of PCPD's Audit Committee and a member of PCPD's Remuneration Committee and Nomination Committee of the Board. He became a director of PCPD in July 2004.

Prof Wong is a Professor of Economics at HKU. He was awarded the Silver Bauhinia Star in 1999 by the Government of the Hong Kong Special Administrative Region ("HKSAR Government") for his contributions in education, housing, industry and technology development. In addition, Prof Wong 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 the following listed companies in Hong Kong:

(1) CK Life Sciences Int'l., (Holdings) Inc.;
(2) Great Eagle Holdings Limited;
(3) Orient Overseas (International) Limited; and
(4) Sun Hung Kai Properties Limited.

BOARD OF DIRECTORS

Prof Wong is also an independent non-executive director of the following companies:

(1) The Link Management Limited (the manager of The Link Real Estate Investment Trust);
(2) Hong Kong Mercantile Exchange Limited; and
(3) Industrial and Commercial Bank of China (Asia) Limited (withdrawal of listing of shares on The Stock Exchange of Hong Kong Limited since 21 December 2010).

Dr Allan ZEMAN, GBM, GBS, JP

Dr Zeman, aged 64, is an independent non-executive director of PCPD, the chairman of PCPD's Nomination Committee of the Board and a member of PCPD's Audit Committee of the Board. 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 Corporation, which manages and controls the Ocean Park, a major theme park in Hong Kong. He is also the chairman of Lan Kwai Fong Holdings Ltd, 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 West Kowloon Cultural District Authority ("WKCDA"), the chairman of WKCDA's Performing Arts Committee and member of WKCDA's Development Committee, the Investment Committee and the Consultation Panel. He is also a member of the Commission on Strategic Development and the Food Business Task Force of Business Facilitation Advisory Committee of the HKSAR Government. In addition, Dr Zeman is a member of the Board of Governors of the Canadian Chamber of Commerce in Hong Kong, the General Committee member of the Hong Kong General Chamber of Commerce and a member of the Asian Advisory Board of the Richard Ivey School of Business, The University of Western Ontario.

Dr Zeman is also a director of The "Star" Ferry Company, Limited, a vice chairman and non-executive director of Wynn Macau, Limited, an independent non-executive director of Sino Land and Tsim Sha Tsui Properties Limited. Dr Zeman is also a director of Wynn Resorts, Limited, a listed company in the United States. He was an independent non-executive director of The Link Management Limited (the manager of The Link Real Estate Investment Trust) from September 2004 to July 2011.

CORPORATE GOVERNANCE REPORT

Pacific Century Premium Developments Limited ("PCPD" or "Company") and its subsidiaries ("Group") has made continued efforts to incorporate the key elements of sound corporate governance into 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.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices ("Former CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") during the period from January 1, 2012 to March 31, 2012. On April 1, 2012, the Former CG Code was amended and renamed as Corporate Governance Code ("CG Code"). The Company has also complied with all relevant code provisions of the CG Code during the period from April 1, 2012 to December 31, 2012, except that the Chairman of the board of directors of the Company ("Board") was unable to attend the annual general meeting of the Company held on May 2, 2012 due to an overseas business trip, and the letters of appointment for the directors were issued to all the directors of the Company in August 2012.

MODEL CODE SET OUT IN APPENDIX 10 TO THE LISTING RULES

The Company has adopted its own code of conduct regarding securities transactions by its directors, senior management and nominated persons, namely the PCPD Code of Conduct for Securities Transactions by Directors, Senior Management and Nominated Persons ("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 enquiries with all the directors of the Company, and they confirmed that they had complied with the requirements under the PCPD Code for the year ended December 31, 2012.

BOARD OF DIRECTORS

As at the date of this report, the Board has eight members, comprising five executive directors and three independent non-executive directors. The biographies of all the directors up to the date of this report are set out on pages 14 to 19 of this annual report.

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

1. those functions and matters as set out in the terms of reference of various committees of the Board for which approval of the Board must be sought from time to time;

2. those functions and matters for which approval of the Board must be sought in accordance with the Group's internal policy;

BOARD OF DIRECTORS – CONTINUED

3. consideration and approval of financial statements in interim reports and annual reports and announcements and press releases of interim and final results;

4. consideration of dividend policy and dividend amount; and

5. monitoring of the corporate governance of the Group in order to ensure compliance with the applicable rules and regulations.

The responsibility of more detailed consideration has been delegated to the executive committee of the Board ("Executive Committee") under the leadership of the chairman of the Board.

Mr Li Tzar Kai, Richard is the Chairman and Mr Lee Chi Hong, Robert is the Chief Executive Officer of the Company. 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 the corporate goals and objectives of the Company and for ensuring that good corporate governance practices and procedures are established and enforced. The Chief Executive Officer is responsible for the day-to-day management of the Group's business and operations and for ensuring effective implementation of the Group's strategies. Mr Lee Chi Hong, Robert is also the Deputy Chairman of the Company.

All the directors have full and timely access to all the relevant information, including monthly updates from the management, reports from each committee of the Board and briefings on significant legal, regulatory or accounting issues affecting the Group. Directors are also entitled to seek independent professional advice, which will be paid for by the Company.

Every director has given sufficient time and attention to the Company's affairs. The Company has requested that each director shall disclose to the Company at the time of his/her appointment and in a timely manner for any change, the number and nature of offices held in public companies or organisations and other significant commitments and with an indication of the time involved.

The Board has introduced a structured process to evaluate the performance of all the directors on an annual basis including a self-evaluation questionnaire which has been completed by each director and was presented to the audit committee of the Board ("Audit Committee") and then to the Board for discussion for the purpose of evaluating each director's performance of his/her responsibilities and his/her time commitment to the Company's affairs in accordance with the relevant requirements of the CG Code, and to identify areas for improvement. Through this process, it was noted that directors were generally satisfied with their performance and their time commitment in discharging their duties as directors of the Company for the year ended December 31, 2012.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS – CONTINUED

The directors acknowledge their responsibility for preparing the financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the profits and cash flows of the Group and which are prepared in accordance with the Hong Kong Financial Reporting Standards, the Companies Ordinance of Hong Kong and the Listing Rules. In preparing the financial statements for the year ended December 31, 2012, 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 which would reflect 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 pages 56 to 57.

One-third of the members of the Board are independent non-executive directors; that complies with the requirement under Rule 3.10(A) of the Listing Rules. In addition, Mr Cheung Kin Piu, Valiant, one of the independent non-executive directors, is a qualified accountant with substantial experience in accounting and financial matters; therefore, the requirement under Rule 3.10 of the Listing Rules is complied with. The Company has received from each of its independent non-executive directors the written confirmation confirming his independence to the Company and the Company considers that they 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 CG Code. The Company has issued formal letters of appointment to its directors setting out the key terms of their appointments as required under the Listing Rules.

Independent non-executive directors are identified in all the corporate communications in which the names of the directors are disclosed. An updated list of the Company's directors identifying the independent non-executive directors and the role and functions of the directors is maintained on the relevant websites of the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange").

EXECUTIVE COMMITTEE

The Executive Committee operates as a general management committee with the 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 authority and duties of the Executive Committee are set out in writing in its terms of reference.

Current members of the Executive Committee are:

1. Li Tzar Kai, Richard (Chairman)

2. Lee Chi Hong, Robert

3. Lam Yu Yee

4. James Chan

REMUNERATION COMMITTEE

The remuneration committee of the Board ("Remuneration Committee") is responsible for ensuring that formal and transparent procedures are in place for developing the remuneration policy of the Company, for overseeing the remuneration packages of individual executive director and senior management, and for providing effective oversight and administration of the share option scheme of the Company. The authority and duties of the Remuneration Committee are set out in writing in its terms of reference which specify, among other things, that it must comprise at least three members, and the majority of whom shall be independent non-executive directors; and the chairman of the Remuneration Committee must be an independent non-executive director of the Company. The terms of reference are posted on the relevant websites of the Company and the Stock Exchange.

The Company has adopted the model by which the determination of the remuneration packages of individual executive director and senior management is delegated to the Remuneration Committee. The Remuneration Committee is provided with sufficient resources to perform its duties and can seek advice from remuneration consultants or other independent external professional advisers if necessary.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE – CONTINUED

The Remuneration Committee is chaired by an independent non-executive director. Current members of the Remuneration Committee are:

1. Cheung Kin Piu, Valiant (Chairman)

2. Li Tzar Kai, Richard

3. Prof Wong Yue Chim, Richard

The majority of the members of the Remuneration Committee are independent non-executive directors.

During the year ended December 31, 2012, the Remuneration Committee held one meeting. The attendance of individual directors at the committee meeting is set out in the table on page 30.

The following is a summary of the work performed by the Remuneration Committee during 2012:

A. reviewed the remuneration of the executive directors and approved the 2011 incentive bonus payment to certain executive directors and the pay increase in 2012 to certain executive directors of the Company;

B. reviewed the fees and remuneration of the non-executive directors for 2012 and made recommendations to the Board that the same be approved; and

C. reviewed the terms of reference of the Remuneration Committee and in light of the relevant amendments to the Listing Rules in April 2012 recommended to the Board to adopt the proposed amendments.

Details of the remuneration of each director are set out in the financial statements on pages 88 to 90.

NOMINATION COMMITTEE

The Nomination Committee is responsible for ensuring that a set of fair and transparent procedure is in place for the appointment and re-appointment of directors to the Board. In February 2013, the Board has revised the terms of reference of the Nomination Committee by including an objective of maintaining the Board with a balance of skills, experience and diversity of perspectives which are appropriate to the requirement of the Company's business. The authority and duties of the Nomination Committee are set out in writing in its terms of reference which specify, among other things, that it must comprise at least three members, the majority of whom shall be independent non-executive directors and the chairman of the Nomination Committee can be either the chairman of the Board or an independent non-executive director of the Company. The terms of reference are posted on the relevant websites of the Company and the Stock Exchange.

The Company has a formal, fair and transparent procedure for the appointment of a new director to the Board. The Nomination Committee reviews the structure, size and composition of the Board, identifies suitably qualified candidates to become Board members and makes recommendations to the Board on the selection of candidates nominated for directorships and on succession planning for directors. During the process, the committee makes the selection of candidate based on merits and with due regard to the benefits of diversity he/she can bring to the Board.

The Nomination Committee is chaired by an independent non-executive director. 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

The majority of the members of the Nomination Committee are independent non-executive directors.

During the year ended December 31, 2012, the Nomination Committee held one meeting. The attendance of individual directors at the committee meeting is set out in the table on page 30.

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE – CONTINUED

The following is a summary of the work performed by the Nomination Committee during 2012:

A. advised the Board as to which of the directors were due to retire pursuant to the applicable laws of Bermuda, the bye-laws of the Company and the CG Code and recommended that they be subject to re-election at the 2012 annual general meeting; and

B. reviewed the terms of reference of the Nomination Committee and in light of the relevant amendments to the Listing Rules in April 2012 recommended to the Board to adopt the proposed amendments.

At its meeting on February 22, 2013, the Nomination Committee reviewed the structure, size and composition of the Board and formed the view that the Board has a balance of skills, knowledge and experience which was appropriate for the business of the Company for the year ended December 31, 2012, with a recommendation to the Board for approval of the same. In performing its duties, the Nomination Committee can seek advice from outside legal counsels or other independent professionals at the Company's expenses if necessary.

AUDIT COMMITTEE

The Audit Committee is responsible for ensuring (i) the objectivity and credibility of the Group's financial reporting; (ii) that the directors have exercised due care, diligence and skills prescribed by law when presenting results to the shareholders; (iii) that an effective system of internal controls is in place; (iv) that good corporate governance standards and practices are maintained by the Group; and (v) the Company's general compliance with regulatory obligations. The authority and duties of the Audit Committee are set out in writing in its terms of reference which are posted on the relevant websites of the Company and the Stock Exchange.

The duties of the Audit Committee include the appointment, compensation and supervision of the external auditor. In order to ensure that the auditor is independent, the Audit Committee has adopted the procedures for reviewing the fees for audit and non-audit services provided to the Group by the external auditor. In February 2012, the Board has resolved that the duties of the Audit Committee be included to maintaining of good corporate governance standards and practices and the whistle-blowing policy of the Group.

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.

AUDIT COMMITTEE – CONTINUED

Current members of the Audit Committee are:

1. Prof Wong Yue Chim, Richard (Chairman)

2. Cheung Kin Piu, Valiant

3. Dr Allan Zeman

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

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, 2012, the Audit Committee held two meetings. The attendance of individual directors at the committee meetings is set out in the table on page 30.

The following is a summary of the work performed by the Audit Committee during 2012:

A. reviewed the financial statements of the Company for the year ended December 31, 2011 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 2012 annual general meeting;

C. reviewed the financial statements of the Company for the six months ended June 30, 2012 and the related interim results announcement and made recommendations to the Board that the same be approved;

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE – CONTINUED

D. reviewed external auditor's reports to the Audit Committee and their terms of engagement, communications plan and audit plan for the Group for the financial year ended December 31, 2012;

E. reviewed various internal audit reports;

F. reviewed the terms of reference of the Audit Committee and in light of relevant amendments to the Listing Rules in April 2012 recommended to the Board to adopt the proposed amendments;

G. reviewed the "Improper Conduct Notification Policy" of the Company;

H. reviewed the PCPD Code to be aligned with the amended Securities and Futures Ordinance regarding inside information;

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

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

K. met with the external auditor in the absence of management.

In addition, the Audit Committee reviewed the financial statements for the year ended December 31, 2012 and the related annual results announcement and auditor's report and the corporate governance report, and recommended that the Board approved the same.

EXTERNAL AUDITOR

The external auditor of the Group is PricewaterhouseCoopers. During the year ended December 31, 2012, the total fees in respect of audit and non-audit services provided by PricewaterhouseCoopers (which for this purpose included 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, either nationally or internationally) amounted to approximately HK$7.1 million.

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

Nature of service	**Fees paid (HK$ million)**
Tax advisory services	0.08
Non-statutory review services	1.50
Others	1.21
Total non-audit services fees	2.79

INTERNAL AUDIT

The internal audit unit of the Group 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 business and service units of the Group. 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 the standards by which 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's 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 can be found on the website of the Company.

CORPORATE GOVERNANCE REPORT

ATTENDANCE AT MEETINGS

All directors actively participate in the Company's business. The attendance records of current directors for the Board meetings and meetings of the Board Committees during the year ended December 31, 2012 are set out below:

	Meetings attended/held in 2012						
Directors	Board	Audit Committee	Nomination Committee	Remuneration Committee	Independent Board Committee	Annual General Meeting	Special General Meeting
Executive directors							
Li Tzar Kai, Richard	5/5	N/A	1/1	1/1	N/A	0/1	0/2
Lee Chi Hong, Robert	5/5	N/A	N/A	N/A	N/A	1/1	2/2
Lam Yu Yee	5/5	N/A	N/A	N/A	N/A	1/1	2/2
James Chan	5/5	N/A	N/A	N/A	N/A	1/1	2/2
Gan Kim See, Wendy	5/5	N/A	N/A	N/A	N/A	1/1	2/2
Independent non-executive directors							
Cheung Kin Piu, Valiant	5/5	2/2	1/1	1/1	1/1	1/1	2/2
Prof Wong Yue Chim, Richard	4/5	2/2	1/1	1/1	1/1	1/1	2/2
Dr Allan Zeman	5/5	2/2	1/1	N/A	1/1	1/1	2/2

TRAINING AND SUPPORT FOR DIRECTORS

During the year, directors received regular updates and presentations on the developments of the Group's business and the latest amendments to the Listing Rules and other applicable regulatory requirements. These updates aim at enhancing directors' knowledge and skills; and assisting them in compliance with good corporate governance practices. All the directors of the Company, namely, Li Tzar Kai, Richard, Lee Chi Hong, Robert, Lam Yu Yee, James Chan, Gan Kim See, Wendy, Cheung Kin Piu, Valiant, Prof Wong Yue Chim, Richard and Dr Allan Zeman, attended training sessions organised by the Company and external professional bodies and have provided the training records to the Company Secretary.

COMPANY SECRETARY

The Company Secretary of the Company is Cheng Wan Seung, Ella. During the year, there was no non-compliance with Rule 3.29 of the Listing Rules.

INVESTOR RELATIONS

The Company encourages two-way communications with both institutional and private investors. Information on the activities of the Company is provided in the interim reports and annual reports as well as on the relevant websites of the Company and the Stock Exchange. There are regular dialogues between institutional investors and the Company. Enquiries from individuals on matters relating to their shareholdings and the business of the Company are welcomed and they are dealt with in an informative and timely manner. Relevant contact information is provided on page 140 of this annual report.

AMENDMENTS TO THE BYE-LAWS

During the year, various amendments to the Bye-laws of the Company were made.

1. At the annual general meeting of the Company held on 2 May 2012, a special resolution was passed to approve certain Bye-laws amendments which were made in order to align certain provisions of the Bye-laws with the relevant requirements of the Listing Rules (including those which became effective on January 1, 2012). For details of the amendments, please refer to the circular issued by the Company dated 28 March 2012.

2. At the special general meeting of the Company held on 2 May 2012, a special resolution was passed to approve certain Bye-laws amendments which were made in order to, among other things, enable the Company to issue the bonus convertible notes and new shares or other securities to the bonus convertible noteholders, whether upon conversion of the bonus convertible notes or otherwise, and the distribution of the surplus assets of the Company to the bonus convertible noteholders in the event of a winding up of the Company, in accordance with the relevant deed poll and the terms and conditions of the bonus convertible notes. For details of the amendments, please refer to the circular issued by the Company dated 5 April 2012.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

1. *Procedures by which shareholders can convene a special general meeting*

Pursuant to the Bye-laws of the Company, the Board shall, on the requisition in writing of the shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company, proceed to call a special general meeting for the transaction of any business specified in such requisition ("Requisition"). The Requisition must state the purposes of the general meeting, be signed by the shareholder(s) concerned and may consist of several documents in like form, each signed by one or more of those shareholders. A special general meeting must be held within two months after deposit of the Requisition.

If within twenty-one days of such deposit the Board fails to proceed to convene such special general meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves do so in accordance with the provisions of Section 74(3) of the Companies Act 1981 of Bermuda.

2. *Procedures by which enquiries may be put to the Board*

Shareholders may, at any time, direct enquiries to the Board. Such enquiries can be addressed to the Company Secretary in writing by mail to the Company's principal place of business in Hong Kong at 8th Floor, Cyberport 2, 100 Cyberport Road, Hong Kong ("Hong Kong Principal Office").

3. *Procedures for putting forward proposals at general meetings*

To put forward a proposal at a shareholders' meeting, shareholders are requested to follow the requirements and procedures as set out in the Bye-laws of the Company and the Companies Act 1981 of Bermuda ("Act").

Pursuant to the Act, shareholder(s) of the Company holding (i) not less than one-twentieth of the total voting rights of all the shareholders having the right to vote at the general meeting; or (ii) not less than 100 shareholders, can submit a written request stating the resolution intended to be moved at the annual general meeting; or a statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at a particular general meeting.

The written request/statements must be signed by the shareholder(s) concerned and deposited at the Company's registered office in Bermuda at Clarendon House, 2 Church Street, Hamilton, HM11 Bermuda ("Registered Office") and its Hong Kong Principal Office, for the attention of the Company Secretary, not less than six weeks before the annual general meeting in the case of a requisition requiring notice of a resolution and not less than one week before the general meeting in the case of any other requisition.

If the written request is in order, the Company Secretary will take necessary actions pursuant to the Act.

SHAREHOLDERS' RIGHTS – CONTINUED

4. *Procedures for shareholders to propose a person for election as a Director*

Pursuant to the Bye-laws of the Company, if a shareholder, who is duly qualified to attend and vote at the general meeting convened to deal with appointment or election of director(s), wishes to propose a person (other than a retiring director and the shareholder himself/herself) for election as a director at that general meeting, such shareholder can deposit a notice in writing of the intention to propose that person for election as a director and a notice in writing by that person of his willingness to be elected at the Company's Registered Office or the Hong Kong Principal Office at least seven days before the date of the general meeting. The period for lodging such notice will commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and no later than seven days prior to the date of such meeting.

If a shareholder wishes to nominate a person to stand for election as a director, the following documents must be validly served on the Company Secretary, namely (i) notice of intention to propose a resolution to elect a person as a director ("Nominated Candidate") at the general meeting; (ii) notice in writing executed by the Nominated Candidate of his willingness to be elected; and (iii) the information as required to be disclosed under Rule 13.51(2) of the Listing Rules and such other information as required by the Listing Rules and the Bye-laws of the Company from time to time.

STAFF TRAINING AND DEVELOPMENT

In 2012, the Group continued to enhance and improve the standards among the 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 1,900 hours. Training courses were designed to assist employees to comply with the policies and standards of the Group and improve their career prospects within the Group. Such courses included customer service enhancement programs, supervisory and people management courses, 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 participated in and sponsored various charitable or community projects last year. The Group has been a sponsor of the CyberRun for Rehab since its inception in 2004 to help raise funds for the Hong Kong Society for Rehabilitation.

CORPORATE GOVERNANCE REPORT

ENVIRONMENT

The Group is committed to sustainability and seeks to promote environment-friendly measures in its operations. Apart from adopting green building exemplary performance strategies in its development projects, the Group has joined the Hong Kong Green Building Council as institutional member to become part of the driving forces in advocating sustainable built environment in Hong Kong. This further demonstrates the Group's commitment to corporate sustainability and responsibility.

On behalf of the Board

CHENG Wan Seung, Ella
Company Secretary

Hong Kong, February 25, 2013

FINANCIAL INFORMATION

REPORT OF THE DIRECTORS

The board of directors ("Board") of Pacific Century Premium Developments Limited ("Company") presented its annual report together with the audited consolidated financial statements of the Company and its subsidiaries ("Group") for the year ended December 31, 2012.

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, 2012 are set out in the accompanying consolidated statement of comprehensive income on page 58.

For the year ended December 31, 2012, the Board of the Company did not declare any interim dividend (2011: Nil). The Board did not recommend the payment of a final dividend for the year ended December 31, 2012 (2011: Nil).

BONUS ISSUE

For the purpose of restoring the minimum public float of the Company as prescribed under Rule 8.08(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), pursuant to the mandate granted by the shareholders at the special general meeting of the Company held on May 2, 2012 for a bonus issue of new shares (on the basis of four bonus shares for one issued share) and the issue of bonus convertible notes to shareholders who elected to receive such notes in lieu of bonus shares, the Company issued 405,378,544 bonus shares at the par value of HK$0.10 per share and the bonus convertible notes in the aggregate amount of HK$592,572,154.40 convertible into 5,925,721,544 shares at the initial conversion price of HK$0.10 per share (subject to adjustment in accordance with the deed poll dated June 22, 2012).

As at December 31, 2012, an aggregate amount of HK$18,000.00 of the bonus convertible notes at the conversion price of HK$0.50 per share was converted into 36,000 shares of the Company.

Save as disclosed above, there has been no issue or exercise of any convertible securities, options, warrants or similar rights of the Company during the year.

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 138.

SUBSIDIARIES

Particulars of the principal subsidiaries of the Company are set out in note 22 to the consolidated financial statements.

FIXED ASSETS

Details of movements in investment properties, property, plant and equipment, properties under development/held for development/held for sale 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 23(d) and note 24 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 26 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 59 and note 29 to the consolidated financial statements respectively.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2012, the aggregate sales attributable to the Group's five largest customers represented approximately 58.32 per cent of the Group's total sales, while the sales attributable to the largest customer for the Group accounted for approximately 18.73 per cent of the Group's total sales. The aggregate purchases attributable to the Group's five largest suppliers represented approximately 15.75 per cent of the total purchases made by the Group.

As at December 31, 2012, Cheung Kin Piu, Valiant, an independent non-executive director of the Company, held 1,094,400 H shares, representing approximately 0.007% of the issued share capital, in China CITIC Bank Corporation Limited ("CITIC"), which is one of the Group's five largest customers; and Reach Networks Hong Kong Limited ("Reach Networks"), which is also one of the Group's five largest customers, is a wholly-owned subsidiary of Reach Ltd. which is an associate of PCCW Limited ("PCCW"), the ultimate holding company of the Company (Li Tzar Kai, Richard and Lee Chi Hong, Robert are executive directors of PCCW and their interests in PCCW and the interests of other directors of the Company are disclosed under the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Share Stapled Units, Underlying Shares, Underlying Share Stapled Units and Debentures" in this report); save and except the above, for the year ended December 31, 2012, none of the directors of the Company, their associates nor any shareholder which to the knowledge of the directors own more than 5 per cent of the issued share capital of the Company had any beneficial interest in the Group's major customers. Further details on the agreements between Reach Networks and PCPD Facilities Management Limited, a wholly-owned subsidiary of the Company, can be found in the announcement of the Company dated December 13, 2012 and page 51 of this report.

DIRECTORS

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

Executive Directors
Li Tzar Kai, Richard (*Chairman*)
Lee Chi Hong, Robert (*Deputy Chairman and Chief Executive Officer*)
Lam Yu Yee (*Deputy Chief Executive Officer and Chief Financial Officer*)
James Chan
Gan Kim See, Wendy

Independent Non-Executive Directors
Cheung Kin Piu, Valiant
Prof Wong Yue Chim, Richard, SBS, JP
Dr Allan Zeman, GBM, GBS, JP

In accordance with bye-law 87 of the bye-laws of the Company, Lee Chi Hong, Robert and Gan Kim See, Wendy shall retire by rotation at the forthcoming annual general meeting and they, being eligible, will offer themselves for re-election.

In addition, each of the non-executive directors is appointed for a term of two years. As Cheung Kin Piu, Valiant was re-elected as a director at the annual general meeting in 2011, he shall retire at the forthcoming annual general meeting and he, being eligible, will offer himself for re-election and the fixed term of appointment will be another two years.

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 Listing Rules.

DIRECTORS' SERVICE CONTRACTS

Neither one of the directors who are proposed for re-election at the forthcoming annual general meeting has with the Group an unexpired service contract 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, SHARE STAPLED UNITS, UNDERLYING SHARES, UNDERLYING SHARE STAPLED UNITS AND DEBENTURES

As at December 31, 2012, the directors and the chief executive of the Company and their associates had the following interests and short positions in the shares, share stapled units, underlying shares, underlying share stapled units and debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("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 ("Model Code") of the Listing Rules:

1. The Company

   As at December 31, 2012, 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, SHARE STAPLED UNITS, UNDERLYING SHARES, UNDERLYING SHARE STAPLED UNITS AND DEBENTURES – CONTINUED

2. Associated Corporations of the Company

A. Interests in PCCW

The tables below set out the aggregate long positions of the directors and the chief executive of the Company in the shares and underlying shares of PCCW, the ultimate holding company of the Company and the debentures issued by PCCW-HKT Capital No.2 Limited and PCCW-HKT Capital No.4 Limited, the associated corporations of PCCW, as at December 31, 2012.

(i) Shares and Underlying Shares

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))*	1,740,004,335 *(Note I(b))*	—	2,011,671,159	27.66%
Lee Chi Hong, Robert	992,600 *(Note II(a))*	511 *(Note II(b))*	—	—	5,000,000 *(Note III)*	5,993,111	0.08%
James Chan	—	—	—	—	210,000 *(Note III)*	210,000	0.003%
Gan Kim See, Wendy	—	—	—	—	240,000 *(Note III)*	240,000	0.003%

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

2. Associated Corporations of the Company – Continued

A. Interests in PCCW – Continued

(ii) Debentures

		Amounts of debentures				
Name of director	Name of Company	Personal interests	Family interests	Corporate interests	Other interests	Total
Li Tzar Kai, Richard	PineBridge Investments Asia Limited	—	—	—	US$10,000,000 6% guaranteed notes due 2013 *(Note IV)*	US$10,000,000 6% guaranteed notes due 2013
	ING Life Insurance Company (Bermuda) Limited	—	—	—	US$9,000,000 4.25% guaranteed notes due 2016 *(Note V)*	US$9,000,000 4.25% guaranteed notes due 2016

REPORT OF THE DIRECTORS

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

2. Associated Corporations of the Company – Continued

A. Interests in PCCW – Continued

Notes:

I. (a) Of these shares of PCCW, Pacific Century Diversified Limited ("PCD"), a wholly-owned subsidiary of Chiltonlink Limited ("Chiltonlink"), held 237,919,824 shares and Eisner Investments Limited ("Eisner") held 33,747,000 shares. Li Tzar Kai, Richard owned 100% of the issued share capital of Chiltonlink and Eisner.

(b) These interests represented:

(i) a deemed interest in 36,726,857 shares of PCCW held by Yue Shun Limited ("Yue Shun"), 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. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in 36,726,857 shares of PCCW held by Yue Shun;

(ii) a deemed interest in 154,785,177 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 154,785,177 shares of PCCW held by PCGH;

(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 itself and certain wholly-owned subsidiaries being Anglang Investments Limited, Pacific Century Group (Cayman Islands) Limited, Pacific Century International Limited and Borsington Limited, an aggregate of 75.80% 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 the issued share capital 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; and

(iv) a deemed interest in 281,000 shares of PCCW held by PineBridge Investments LLC ("PBI LLC") in the capacity of investment manager. PBI LLC was an indirect subsidiary of Chiltonlink and Li Tzar Kai, Richard owned 100% of the issued share capital of Chiltonlink. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 281,000 shares of PCCW held by PBI LLC in the capacity of investment manager.

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

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

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

2. Associated Corporations of the Company – Continued

A. Interests in PCCW – Continued

Notes: – Continued

III. These interests represented the interests in the underlying shares in respect of the share options granted by PCCW under its share option scheme adopted on September 20, 1994 to the directors and the chief executive of the Company as beneficial owners as at December 31, 2012, details of which are set out as follows (all dates are shown month/day/year):

					Number of options	
Name of director/ chief executive	Date of grant	Vesting period	Exercisable period	Exercise price HK$	Outstanding as at 01.01.2012	Outstanding as at 12.31.2012
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
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	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.350	240,000	240,000

IV. PineBridge Investments Asia Limited ("PBIA") in the capacity of investment manager held US$10,000,000 of the 6% guaranteed notes due 2013 ("2013 Notes") issued by PCCW-HKT Capital No.2 Limited, an associated corporation of PCCW. PBIA was an indirect subsidiary of Chiltonlink and Li Tzar Kai, Richard owned 100% of the issued share capital of Chiltonlink. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the amount of US$10,000,000 of the 2013 Notes held by PBIA in the capacity of investment manager.

V. On October 19, 2012, PCG Financial Services Holdings (Singapore) Pte. Ltd. ("Purchaser") entered into a conditional sale and purchase agreement in relation to the acquisition of, among others, the indirect interests in ING Life Insurance Company (Bermuda) Limited ("ING") ("Transaction"). Li Tzar Kai, Richard was indirectly interested as to 100% of the issued share capital of the Purchaser. Upon completion of the Transaction, Li Tzar Kai, Richard will be indirectly interested as to 100% of the issued share capital of ING. As at 31 December 2012, ING held US$9,000,000 of 4.25% guaranteed notes due 2016 ("2016 Notes") issued by PCCW-HKT Capital No.4 Limited, an associated corporation of PCCW. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the amount of US$9,000,000 of the 2016 Notes held by ING.

As at December 31, 2012, the Company had not been notified of any short position in the shares or underlying shares or debentures of PCCW held by the directors or the chief executive of the Company or their associates.

REPORT OF THE DIRECTORS

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

2. Associated Corporations of the Company – Continued

B. Interests in the HKT Trust and HKT Limited

The table below sets out the aggregate long positions in the shares stapled units which were jointly issued by the HKT Trust and HKT Limited ("Shares Stapled Units") and the underlying Share Stapled Units held by the directors and the chief executive of the Company as at December 31, 2012:

Name of director/ chief executive	Number of Shares Stapled Units Personal interests	Family interests	Corporate interests	Other interests	Number of underlying Shares Stapled Units held under equity derivatives	Total	Approximate percentage of issued Shares Stapled Units
Li Tzar Kai, Richard	—	—	219,573,506 *(Note I(a))*	125,358,732 *(Note I(b))*	—	344,932,238	5.38%
Lee Chi Hong, Robert	43,156 *(Note II(a))*	22 *(Note II(b))*	—	—	—	43,178	0.0007%

Each Share Stapled Unit confers an interest in:

(a) one voting ordinary share of HK$0.0005 in HKT Limited ("HKT"); and
(b) one voting preference share of HK$0.0005 in HKT,

for the purpose of Part XV of the SFO, in addition to an interest in one unit in the HKT Trust.

Under the trust deed dated November 7, 2011 constituting the HKT Trust, entered into between HKT Management Limited (in its capacity as the trustee-manager of the HKT Trust) and HKT, and as supplemented, amended or substituted from time to time; and the amended and restated articles of association of HKT, the number of ordinary shares and preference shares of HKT in issue must be the same at all times and must also, in each case, be equal to the number of units of the HKT Trust in issue; and each of them is equal to the number of Share Stapled Units in issue.

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

2. Associated Corporations of the Company – Continued

B. Interests in the HKT Trust and HKT Limited – Continued

Notes:

I. (a) Of these Share Stapled Units, PCD held 17,142,046 Share Stapled Units; and Eisner held 202,431,460 Share Stapled Units.

(b) These interests represented:

(i) a deemed interest in 2,646,156 Share Stapled Units held by Yue Shun. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 2,646,156 Share Stapled Units held by Yue Shun;

(ii) a deemed interest in 11,152,220 Share Stapled Units held by PCGH. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 11,152,220 Share Stapled Units held by PCGH;

(iii) a deemed interest in 111,548,140 Share Stapled Units held by PCRD. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 111,548,140 Share Stapled Units held by PCRD; and

(iv) a deemed interest in 12,216 Share Stapled Units held by PBI LLC in the capacity of investment manager. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 12,216 Share Stapled Units held by PBI LLC in the capacity of investment manager.

II. (a) These Share Stapled Units were held jointly by Lee Chi Hong, Robert and his spouse.

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

As at December 31, 2012, the Company had not been notified of any short position in the shares, Share Stapled Units, underlying shares, underlying Share Stapled Units or debentures of HKT held by the directors or the chief executive of the Company or their associates.

REPORT OF THE DIRECTORS

SHARE OPTIONS AND DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Particulars of the share option schemes of the Company are set out in note 28 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, 2012 are as follows:

1. Outstanding options as at January 1, 2012 and as at December 31, 2012 (all dates are shown month/day/year)

					Number of options	
Category of participant	**Date of grant**	**Vesting period**	**Exercisable period**	**Exercise price HK$**	**Outstanding as at 01.01.2012**	**Outstanding as at 12.31.2012**
Director of a subsidiary of the Company	12.20.2004	Fully vested on 12.20.2004	12.20.2004 to 12.19.2014	2.375	5,000,000	5,000,000

As at December 31, 2012, the total number of shares of the Company that might be issued upon exercise of all the share options granted and yet to be exercised under the 2003 share option scheme was 5,000,000 shares, which represented approximately 1.26% of the issued share capital of the Company immediately after the bonus issue of shares and the issue of bonus convertible notes (which took place on June 22, 2012) ("Bonus Issue") and the share consolidation which became effective on June 25, 2012 ("Share Consolidation").

There was no adjustment to the number of the outstanding share options or the subscription price of such outstanding options as a result of the reorganisation of capital structure of the Company in relation to the Bonus Issue and the Share Consolidation announced on May 16, 2012. It was certified by Anglo Chinese Corporate Finance, Limited, the financial adviser to the Company, that adjustments to the subscription price per share of the Company which might fall to be issued upon the exercise of the aforesaid share options as a result of the Bonus Issue and the Share Consolidation respectively would be net off and would result in no adjustment. For details of the Bonus Issue and the Share Consolidation of the Company, please refer to the listing document and the circular of the Company both dated June 4, 2012 and the announcement of the Company dated June 21, 2012.

2. Options granted during the year ended December 31, 2012
   During the year under review, no share options were granted.

3. Options exercised during the year ended December 31, 2012
   During the year under review, no share options were exercised.

4. Options cancelled or lapsed during the year ended December 31, 2012
   During the year under review, no share options were cancelled or lapsed.

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

No share options have been granted under the 2005 share options 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.

INTERESTS AND SHORT POSITIONS IN SHARES OF SUBSTANTIAL SHAREHOLDER

1. Interests in the Company

As at December 31, 2012, 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**
PCCW	Beneficial owner	2,153,555,554 *(Note)*

Note:

These interests comprised, immediately after the Bonus Issue and the Share Consolidation, (a) an interest in 296,266,666 shares in the Company held by Asian Motion Limited ("Asian Motion"), a wholly-owned subsidiary of PCCW; (b) an interest in 1,185,066,666 underlying shares of the Company in relation to the bonus convertible notes in the aggregate amount of HK$592,533,333.20 as held by Asian Motion; and (c) an interest in respect of 672,222,222 underlying shares of the Company in relation to the guaranteed convertible note held by PCCW-HKT Partners Limited, a wholly-owned subsidiary of PCCW, in the amount of HK$2,420,000,000 issued by PCPD Wealth Limited, a wholly-owned subsidiary of the Company, on December 29, 2006.

The Share Consolidation has given rise to certain fractional consolidated shares ("Fractional Consolidated Shares"). The Fractional Consolidated Shares have not been issued to the shareholders of the Company but all such Fractional Consolidated Shares are aggregated and, if possible, will be sold for the benefit of the Company. On that basis, and after aggregation, the 0.6 Fractional Consolidated Share resulted from the consolidation of shares held by Asian Motion has not been issued to Asian Motion. Instead, such 0.6 Fractional Consolidated Share is held by the Company's nominee pending the sale thereof.

REPORT OF THE DIRECTORS

INTERESTS AND SHORT POSITIONS IN SHARES OF SUBSTANTIAL SHAREHOLDER – CONTINUED

2. Short Positions in the Company

As at December 31, 2012, 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, 2012, 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, 2012, 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; infrastructure; energy; telecommunications; and finance & investments and others	Certain personal and deemed interests in HWL *(Note II)*

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.

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.

In addition, Li Tzar Kai, Richard and Lee Chi Hong, Robert are directors of certain private companies ("Private Companies") which are engaged in property development and investment in Hong Kong and Japan.

Further, Li Tzar Kai, Richard is a director and chairman of PCRD. PCRD is an investment holding company with interests in telecommunications and media (through PCCW), financial services, property and infrastructure 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 and 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, Share Stapled Units, Underlying Shares, Underlying Shares Stapled Units 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 have 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 did not make any charitable donation (2011: HK$1 million).

REPORT OF THE DIRECTORS

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

With the approval by independent shareholders at the special general meeting of May 2, 2012, the Company had implemented a conditional cash offer to repurchase for cancellation up to 926,126,540 issued ordinary shares of HK$0.10 each held by the shareholders of the Company ("Offer"). In relation to the Offer, PCCW Group had given undertaking not to accept the same. Following the close of the Offer on May 16, 2012, a total of 824,684,851 issued ordinary shares of HK$0.10 each were repurchased and cancelled by the Company in May 2012. For details of the result of the Offer, please refer to the announcement dated May 16, 2012.

Save as aforesaid, there was no purchase, sale or redemption by the Company or any of its subsidiaries of the listed securities of the Company for the year ended December 31, 2012.

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 27 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

CONNECTED TRANSACTIONS

Since the publication of the Company's annual report for the year ended December 31, 2011, 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 and its subsidiaries ("PCCW Group") during the year are as follows:

Continuing connected transactions

1. As disclosed in the announcement of the Company dated March 29, 2007, 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., which is a 50:50 joint venture between Telstra Corporation Limited and PCCW, have on that day entered into two agreements for the provision of the facilities management services ("FM Services Agreement") and lease and tenant management services ("LTM Services Agreement") to Reach Networks at the fees calculated in accordance with the agreements, for a term of three years from April 1, 2007 to March 31, 2010. Upon expiry of the above agreements, as disclosed in the announcement of the Company dated March 23, 2010, PCPD FM has renewed the FM Services Agreement and the LTM Services Agreement, 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 the period from April 1, 2010 to December 31, 2012, subject to the right of Reach Networks to terminate early at the end of the second year (i.e. on March 31, 2012) by giving not less than three 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, 2012 to December 31, 2012 were approximately HK$24.6 million and HK$1.1 million respectively.

   In the announcement dated 13 December 2012, the Company announced that PCPD FM and Reach Networks entered into the facilities management services agreement and the lease and tenant management services agreement ("New Agreements") in order to provide facilities management services and lease and tenant management services to Reach Networks from January 1, 2013 onwards for a term of two years until December 31, 2014 at the fees calculated in accordance with the terms of New Agreements, subject to the annual caps as disclosed in the announcement.

2. As disclosed in the announcement of the Company dated December 31, 2010, PCPD Operations Limited, an indirect wholly-owned subsidiary of the Company, and Hong Kong Telecommunications (HK) Limited, an indirect wholly-owned subsidiary of PCCW, have on that day entered into a master agreement for supply of goods and services ("Master Agreement") which sets out the framework for the provision of certain goods and services by PCCW Group. The categories of goods and services which were provided pursuant to the Master Agreement for the period from January 1, 2011 to December 31, 2013 (both dates inclusive) were (i) Information Technology and Telecommunication Equipment and Services and (ii) Corporate and Other Services.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS – CONTINUED

Continuing connected transactions – continued

The aggregate contract amounts for transactions contemplated under the Master Agreement for the financial year ended December 31, 2012 are set out below:

Category of Services	**Approximate aggregate contract amount for the financial year ended December 31, 2012**	**Annual Cap for the financial year ended December 31, 2012**
	HK$'000	*HK$'000*
Information Technology and Telecommunication Equipment and Services	3,605	11,300
Corporate and Other Services	4,641	6,100

3. As disclosed in the announcement of the Company dated December 31, 2010, it is expected that 北京京威房地產開發有限公司 (Beijing Jing Wei House and Land Estate Development Co. Ltd.*) ("BJJW"), a wholly-owned subsidiary of the Company, would enter as lessor into various lease and licence agreements with various entities of the PCCW Group (as lessees or licensees) over certain units and space at Pacific Century Place, Beijing ("PCP Beijing"), the investment property of the Group located at No. 2A Gong Ti Bei Lu, Chaoyang district, Beijing, PRC. All leases or licenses of units and space at PCP Beijing between the Group and the PCCW Group ("PCP Beijing Leases") are required to be aggregated for each financial year. The annual cap and actual aggregate amount of the PCP Beijing Leases for the financial year ended December 31, 2012 are set out below:

	Approximate aggregate amount for the financial year ended December 31, 2012	**Annual Cap for the financial year ended December 31, 2012**
	RMB'000	*RMB'000*
Aggregate Value	8,847	12,000

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, 2012 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, 2012:

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

B. the transactions referred to in item I 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 23, 2010 and December 31, 2010.

REPORT OF THE DIRECTORS

CONTINUING OBLIGATIONS UNDER CHAPTER 13 OF THE LISTING RULES

In accordance with the requirements under Rule 13.21 of the Listing Rules, the directors of the Company report below the details of the loan facilities of the Group as follows:

As disclosed in the announcement of the Company dated 8 October 2012 ("Announcement"), in order to support the development projects of the Group, Pride Pacific Limited ("Pride Pacific") and BJJW, each a wholly-owned subsidiary of the Company, had obtained new banking facilities.

On 8 October 2012, a HKD facility agreement ("HKD Facility Agreement") was entered into by Pride Pacific as the borrower and the agent of the obligors therein, the Company and New Mile International Limited, a wholly-owned subsidiary of the Company as guarantors, Standard Chartered Bank (Hong Kong) Limited as facility agent and security agent and the financial institutions as lenders and co-ordinating arrangers. Under the HKD Facility Agreement, the lenders will make available to Pride Pacific a term loan facility and a revolving loan facility, of up to the aggregate amount of HK$3,000,000,000. All amounts borrowed will be applied towards the general corporate purposes of the Group. Any loan made under the HKD Facility must be repaid on the date falling 36 months after the date of the HKD Facility Agreement.

On 8 October 2012, a RMB facility agreement ("RMB Facility Agreement") was entered into by BJJW as the borrower, Standard Chartered Bank (China) Limited as the RMB facility coordinator and Standard Chartered Bank (China) Limited, Beijing Branch as the sole lender. Under the RMB Facility Agreement, the lender will make available to BJJW a term loan facility of up to the aggregate amount of RMB100,000,000 ("RMB Facility"). The RMB Facility is a fixed assets loan, which shall be used towards the construction costs, and any other costs and expenses in connection with the refurbishment, redecoration, or maintenance of the Property or any other improvement of the Property. Any loan made under the RMB Facility must be repaid on the date falling 36 months after the date of the RMB Facility Agreement.

The HKD Facility Agreement contains a specific performance obligation under which the mandatory prepayment obligation (as defined in the Announcement) may arise when PCCW ceases to control the Company ("Specific Performance Obligation"). As at the date of this report, PCCW controls the Company.

A breach of the Specific Performance Obligation under the HKD Facility Agreement would, if it constitutes an event of default under the HKD Facility Agreement, also constitute an event of default under the RMB Facility Agreement.

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 36 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.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, based on information that was publicly available to the Company and within the knowledge of the directors of the Company, the directors confirmed that the Company maintained the prescribed public float as required under the Listing Rules since the completion of the Bonus Issue and Share Consolidation in June 2012. (For details of the Bonus Issue and the Share Consolidation, please refer to the listing document and circular of the Company both dated June 4, 2012 and the announcement dated May 16, 2012 and June 21, 2012.)

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the corporate governance report in pages 20 to 34 of this annual report.

AUDITOR

The financial statements for the financial year ended December 31, 2012 were 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, February 25, 2013

* *For identification only*

INDEPENDENT AUDITOR'S REPORT

pwc 羅兵咸永道

TO THE SHAREHOLDERS OF PACIFIC CENTURY PREMIUM DEVELOPMENTS LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Pacific Century Premium Developments Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 58 to 137, which comprise the consolidated and company balance sheets as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the consolidated financial statements are free from material misstatement.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 31 December 2012, 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, 25 February 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2012

HK$ million	Note(s)	2012	2011
Turnover	4, 5	**1,184**	2,126
Cost of sales		**(631)**	(1,285)
Gross profit		**553**	841
General and administrative expenses		**(491)**	(580)
Other income		**—**	24
Other losses, net	6	**(6)**	—
Surplus on revaluation of investment properties	14	**343**	43
Operating profit		**399**	328
Interest income		**25**	28
Finance costs	7	**(192)**	(163)
Profit before taxation	8	**232**	193
Income tax	11	**(165)**	(131)
Profit attributable to equity holders of the Company		**67**	62
Other comprehensive income:			
Currency translation differences:			
Exchange differences on translating foreign operations		**3**	240
Total comprehensive income		**70**	302
Earnings per share (expressed in Hong Kong cents per share)			
Basic	13	**3.58 cents**	2.58 cents
Diluted	13	**3.58 cents**	2.58 cents

Remark: After completion of the issue of bonus shares and bonus convertible notes (to those shareholders who elected to receive bonus convertible notes in lieu of entitlement to bonus shares) and the share consolidation on June 22, 2012 and June 25, 2012 respectively, the Company had in issue 397,666,713.2 ordinary shares and the aggregated amount of HK$592,554,154.40 outstanding bonus convertible notes which could be converted into 1,185,108,308 fully paid ordinary shares of HK$0.50 each, representing a total of 1,582,775,021.2 shares which form the basis for the calculation of basic earnings per share. Adjustments have been made for the shares repurchased during the year. Details of the calculation of earnings per share and the Company's share capital are set out in notes 13 and 26 respectively.

The notes on pages 64 to 137 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2012

	2012							
HK$ million	Issued equity	Capital reserve	Currency translation reserve	Convertible notes reserve	Other reserves	Employee share-based compensation reserve	Retained earnings	Total
Balance at January 1, 2012	**4,321**	**(565)**	**1,271**	**769**	**—**	**17**	**1,354**	**7,167**
Total comprehensive income for the year	**—**	**—**	**3**	**—**	**—**	**—**	**67**	**70**
Transactions with owners:								
– Shares repurchased and cancelled (note 26(c))	**(1,526)**	**—**	**—**	**—**	**—**	**—**	**—**	**(1,526)**
– Issued bonus shares and issued bonus convertible notes (note 26(d))	**41**	**—**	**—**	**592**	**—**	**—**	**(633)**	**—**
– Direct expenses related to share repurchase, issue of bonus shares and bonus convertible notes	**—**	**—**	**—**	**—**	**—**	**—**	**(27)**	**(27)**
– Subscription Agreement for the right to issue 2019 Convertible Note (note 19)	**—**	**—**	**—**	**—**	**10**	**—**	**—**	**10**
Balance at December 31, 2012	**2,836**	**(565)**	**1,274**	**1,361**	**10**	**17**	**761**	**5,694**

	2011							
HK$ million	Issued equity	Capital reserve	Currency translation reserve	Convertible notes reserve	Other reserves	Employee share-based compensation reserve	Retained earnings	Total
Balance at January 1, 2011	4,321	(565)	1,031	769	—	17	1,292	6,865
Total comprehensive income for the year	—	—	240	—	—	—	62	302
Balance at December 31, 2011	4,321	(565)	1,271	769	—	17	1,354	7,167

The notes on pages 64 to 137 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2012

HK$ million	Note(s)	2012	2011
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	14	**5,883**	5,469
Property, plant and equipment	15	**235**	281
Properties under development	16(a)	**490**	508
Properties held for development	16(b)	**678**	618
Intangible asset	17	**20**	14
Goodwill	18	**4**	4
Derivative financial instrument	19	**4**	—
Other financial assets	20	**1**	—
Other receivables		**2**	3
		7,317	6,897
Current assets			
Properties held for sale	16(c)	**215**	456
Sales proceeds held in stakeholders' accounts	23(a)	**678**	632
Restricted cash	23(b), 32(b)	**1,319**	703
Trade receivables, net	23(c)	**23**	12
Prepayments, deposits and other current assets		**138**	112
Amounts due from fellow subsidiaries	36(c)	**3**	16
Amounts due from related companies	36(c)	**2**	3
Other financial assets	20	**1**	—
Cash and cash equivalents	32(b)	**829**	2,855
		3,208	4,789

HK$ million	Note(s)	2012	2011
Current liabilities			
Short-term borrowings	23(d)	**—**	9
Current portion of long-term borrowings	24	**24**	24
Trade payables	23(e)	**15**	45
Accruals, other payables and deferred income	23(f)	**329**	573
Deposits received on sales of properties		**28**	64
Amounts due to fellow subsidiaries	36(c)	**14**	4
Amount payable to the HKSAR Government under the Cyberport Project Agreement	25	**959**	603
Current income tax liabilities		**8**	23
		1,377	1,345
Net current assets		**1,831**	3,444
Total assets less current liabilities		**9,148**	10,341
Non-current liabilities			
Long-term borrowings	24	**2,657**	2,505
Other payables		**1**	—
Deferred income tax liabilities	31(a)	**796**	669
		3,454	3,174
Net assets		**5,694**	7,167
REPRESENTING:			
Issued equity	26	**2,836**	4,321
Reserves		**2,858**	2,846
		5,694	7,167

Approved by the board of directors on February 25, 2013 and signed on behalf of the Board by

Lee Chi Hong, Robert
Director

Lam Yu Yee
Director

The notes on pages 64 to 137 form part of these financial statements.

BALANCE SHEET

AS AT DECEMBER 31, 2012

HK$ million	Note	2012	2011
ASSETS AND LIABILITIES			
Non-current asset			
Investment in a subsidiary	21	**2,870**	2,870
Current assets			
Amounts due from subsidiaries	21	**7,070**	7,102
Cash and cash equivalents		**1**	1
		7,071	7,103
Current liabilities			
Accruals and other payables		**2**	1
Amount due to a subsidiary	21	**4,696**	3,172
		4,698	3,173
Net current assets		**2,373**	3,930
Total assets less current liabilities		**5,243**	6,800
Net assets		**5,243**	6,800
REPRESENTING:			
Share capital	26(b)	**199**	241
Reserves	29	**5,044**	6,559
		5,243	6,800

Approved by the board of directors on February 25, 2013 and signed on behalf of the Board by

Lee Chi Hong, Robert
Director

Lam Yu Yee
Director

The notes on pages 64 to 137 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2012

HK$ million	Note	2012	2011
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	32(a)	**(426)**	804
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(15)**	(111)
Payment for investment properties		**(19)**	(27)
Payment for intangible asset		**(6)**	(14)
Proceeds from disposal of property, plant and equipment		**—**	1
NET CASH USED IN INVESTING ACTIVITIES		**(40)**	(151)
FINANCING ACTIVITIES			
Repayment of borrowings		**(9)**	(3)
Repurchase of shares		**(1,526)**	—
Payment of direct expenses related to share repurchase and issue of bonus shares and bonus convertible notes		**(27)**	—
NET CASH USED IN FINANCING ACTIVITIES		**(1,562)**	(3)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(2,028)**	650
Exchange differences		**2**	26
CASH AND CASH EQUIVALENTS			
At January 1,		**2,855**	2,179
At December 31,	32(b)	**829**	2,855

The notes on pages 64 to 137 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012 (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, 2012, 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 58 to 137 were approved by the board of directors (the "Board") on February 25, 2013.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

a. Statement of compliance

These financial statements have been prepared in accordance with the applicable Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Companies Ordinance of Hong Kong. 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, 2012 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 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.

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.

Amendments to HKAS 12, Income Taxes

In December 2010, the HKICPA amended HKAS 12, "Income taxes", to introduce an exception to the principle for the measurement of deferred income tax assets or liabilities arising on an investment property measured at fair value. The revised HKAS 12 requires an entity to measure the deferred income tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces a rebuttable presumption that an investment property measured at fair value is recovered entirely by sale. The presumption of recovery entirely by sale is rebutted if the investment property is held within a business model whose objective is to consume substantially all the economic benefits embodied in the investment property over time, rather than through sale. The amendment is applicable retrospectively to annual periods beginning on or after January 1, 2012.

For the investment properties held by the Group amounting to HK$5,883 million as at December 31, 2012, the Group's business model is that the entity owning the investment properties will recover the value through use and on this basis the presumption of sale has been rebutted. Consequently, the Group has continued to recognise the deferred income taxes on the basis that the value of investment properties is recovered through use. There is no impact on the Group's results of operations and financial position.

Amendments effective from January 1, 2012 adopted by the Group but have no significant impact on the Group's financial statements

HKFRS 1 (Amendment)	Severe Hyperinflation
HKFRS 7 (Amendment)	Disclosures – Transfers of Financial Assets

The following new standards, amendments and interpretations have been issued but are not yet effective for the year ended December 31, 2012 and which the Group has not early adopted:

HKAS 1 (Amendment)	Presentation of Financial Statements (effective for annual periods beginning on or after July 1, 2012)
HKAS 19 (Amendment)	Employee Benefits (effective for annual periods beginning on or after January 1, 2013)
HKAS 27	Separate Financial Statements (effective for annual periods beginning on or after January 1, 2013)
HKAS 28	Investments in Associates and Joint Ventures (effective for annual periods beginning on or after January 1, 2013)

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012 (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

HKAS 32 (Amendment)	Presentation – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2014)
HKFRS 1 (Amendment)	Government Loans (effective for annual periods beginning on or after January 1, 2013)
HKFRS 7 (Amendment)	Disclosures – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2013)
HKFRS 9	Financial Instruments (effective for annual periods beginning on or after January 1, 2015)
HKFRS 10	Consolidated Financial Statements (effective for annual periods beginning on or after January 1, 2013)
HKFRS 11	Joint Arrangements (effective for annual periods beginning on or after January 1, 2013)
HKFRS 12	Disclosure of Interests in Other Entities (effective for annual periods beginning on or after January 1, 2013)
HKFRS 13	Fair Value Measurement (effective for annual periods beginning on or after January 1, 2013)

The Group has been evaluating the impact of these new HKFRS but is not yet in a position to state whether all these new HKFRS would have a significant impact on the Group's results of operations and financial position.

c. Subsidiaries

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

The Group uses the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

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 is stated at cost less any impairment losses (note 2(i)). The results of subsidiaries are recognised by the Company to the extent of dividends received and receivable at the balance sheet date.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

d. Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and that the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Sales of properties

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

For pre-completion contracts for the 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.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012 (Amount expressed in Hong Kong dollars unless otherwise stated)

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.

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

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

Property, plant and equipment held for own use are stated in the balance sheet at cost less accumulated depreciation and impairment losses (note 2(i)). 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 (note 2(t)). 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 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.

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 51 years
Other plant and equipment	2 to 17 years

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

g. Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation, and which are not occupied by the Group.

Land held under operating leases are classified and accounted for as an investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

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

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

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

h. Intangible asset (other than goodwill)

Other intangible asset acquired by the Group is stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(i)).

Amortisation of intangible asset with finite useful lives is charged to income statement on a straight-line basis over the asset's estimated useful lives. The right for rental collection is amortised from the date it is available for use and the estimated useful life is 21 years.

Both the intangible asset's useful life and the method of amortisation are reviewed annually.

i. 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;
- intangible asset;
- properties under development/held for development/held for sale;
- pre-paid interests in leasehold land classified as being held under an operating lease;
- 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.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

i. Impairment of investment in subsidiaries and non-financial assets – Continued

(ii) Reversals of impairment losses

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

A reversal of an impairment loss 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.

j. Properties under development/held for development/held for sale

Properties under development 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 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.

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

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.

k. Goodwill

Goodwill represents the excess of the aggregate of the fair value of the consideration transferred and the fair value of non-controlling interest over the Group's interest in the net fair value of the acquiree's net identifiable assets, liabilities and contingent liabilities at the date of acquisition.

Goodwill is stated in the consolidated balance sheet at cost less accumulated impairment losses (note 2(i)). Goodwill is allocated to cash-generating units and is tested annually for impairment. Impairment losses on goodwill are not reversed. On disposal of an entity or business unit, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

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.

n. Financial assets at fair value through profit or loss

The Group and the Company classify their investments in equity securities, other than investments in subsidiaries, as financial assets at fair value through profit or loss. This category comprises financial assets held for trading and those designated as fair value through profit or loss at inception. A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the short term or if so designated by management. Financial assets at fair value through profit or loss are classified as current assets, if they are either held for trading or are expected to be realised within 12 months from the balance sheet date. Any attributable transaction costs are recognised in the income statement as incurred. At each balance sheet date, the fair value is re-measured, with any unrealised holding gains or losses arising from the changes in fair value being recognised in the income statement in the period in which they arise. The net gain or loss recognised in the income statement does not include any dividends on the financial assets as dividend income is recognised only when the shareholder's right to receive payment is established.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

o. Derivative financial instruments

Convertible notes that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

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.

p. 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 Company or 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 Company or 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".

q. Trade and other payables

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

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

r. Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or the Group has a present obligation (legal or constructive) as a result of a past event, it is 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.

s. 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.

t. 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.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

u. 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.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(g), the amount of deferred income tax recognised is measured using the tax rates would apply on sale of those assets at their carrying value at the balance sheet unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, 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.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

u. Income tax – Continued

(iii) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

v. Employee benefits

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

(ii) Defined 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

v. Employee benefits – Continued

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

(iv) The Board of directors of PCCW may also grants shares of PCCW to employees of the Group at nil consideration under its share award scheme; which the awarded shares are either newly issued at par value (the "Subscription Scheme") or are purchased from the open market (the "Purchase Scheme").

For the Subscription Scheme, it is accounted for as equity-settled share-based payment. The fair value of the awarded shares is measured by the quoted market price of PCCW shares at grant date. The fair value of the employee services received in exchange for the grant of shares is recognised as staff costs in the income statement over the respective vesting period with a corresponding increase in the capital contribution from shareholder in respect of employee share-based compensation reserve under equity.

For the Purchase Scheme, it is accounted for as cash-settled share-based payment. The fair value of the awarded shares represents the quoted market price of PCCW shares purchased from the open market and is recognised as financial assets at fair value through profit or loss, and subsequently measured at fair value. The fair value of the employee services received in exchange for the grant of shares is recognised as staff costs in the income statement over the respective vesting period with a corresponding obligation being recognised.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012 (Amount expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

w. 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 dollars, 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 gain or loss on disposal.

x. 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 majority of these criteria.

y. 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 the purchasers, the Group recognised the revenue in respect of the properties sold.

Management made judgement as to when the significant risks and rewards of ownership of properties are transferred to the purchasers. Risks and rewards of ownership of properties are transferred to the purchasers upon execution of legally binding unconditional sales contracts upon which the beneficial interests in the properties pass to the purchasers.

The judgement as to when risks and rewards of ownership of properties are transferred would affect the Group's profit for the year and the carrying value of properties held for sale.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012 (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 be 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 properties 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 the 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 the year of 2012 has resulted in the costs of properties sold recorded in the year ended December 31, 2012 being decreased by HK$59 million.

(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 market value approach and (ii) other principal assumptions, including the receipt of contractual rentals, expected future market rentals in view of the current usage and condition of the investment properties, supported by the terms of any existing leases and other contracts, 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, 2012, the fair value of the investment properties was HK$5,883 million.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – CONTINUED

(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.

The fair value for the right to issue the 2019 Convertible Note (note 19) was determined by using binomial model. The fair value of the derivative financial instrument on the date of issue on March 2, 2012 was credited to equity under "Other reserves" as a contribution from the equity holder of the Company. It is re-measured at each balance sheet date and the gain or loss is recognised in the income statement. Had management determined that different volatility and risk-free rate were appropriate on the date the derivative financial instrument was issued, this would have caused different amount of gain or loss 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, 2012, the deferred income tax assets netted off against the deferred income tax liabilities recognised in the consolidated balance sheet was HK$19 million (notes 31(a)).

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012 (Amount expressed in Hong Kong dollars unless otherwise stated)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – CONTINUED

(v) Impairment of investment in subsidiaries and non-financial assets

At each balance sheet date, the Group reviews internal and external sources of information 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;
- intangible asset;
- properties under development/held for development/held for sale;
- pre-paid interests in leasehold land classified as being held under an operating lease;
- 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 sources used to identify indications of impairment are often subjective in nature and the Group is required to use judgement in applying such information to its business. The Group's interpretation of this information has a direct impact on whether an impairment assessment is performed as at any given balance sheet date.

If an indication of impairment is identified, such information is further subject to an exercise that requires the Group to estimate the recoverable value, representing the greater of the asset's fair value less cost to sell or its value in use. Depending on the Group's assessment of the overall materiality of the asset under review and complexity of deriving reasonable estimates of the recoverable value, the Group may perform such assessment utilising internal resources or the Group may engage external advisors to counsel the Group in making the assessment. Regardless of the resources utilised, the Group is required to make many assumptions to make this assessment, including the utilisation of such asset, the cash flows to be generated, appropriate market discount rates and the projected market and regulatory conditions. Changes in any of these assumptions could result in a material change to future estimates of the recoverable value of any asset.

4. TURNOVER

Turnover comprises the revenue recognised in respect of the following businesses:

	The Group	
HK$ million	**2012**	2011
Property development	**791**	1,710
Property investment	**240**	262
Other businesses	**153**	154
	1,184	2,126

5. SEGMENT INFORMATION

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resources 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 (i))		Elimination		Consolidated	
HK$ million	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Revenue from external customers	**791**	1,710	**239**	260	**154**	156	**—**	—	**1,184**	2,126
Inter-segment revenue	**—**	—	**—**	—	**2**	10	**(2)**	(10)	**—**	—
Reportable segment revenue	**791**	1,710	**239**	260	**156**	166	**(2)**	(10)	**1,184**	2,126
Interest income	**1**	2	**19**	11	**—**	—	**—**	—	**20**	13
Unallocated interest income									**5**	15
Consolidated interest income									**25**	28
Finance costs	**—**	—	**1**	1	**—**	—	**—**	—	**1**	1
Unallocated finance costs									**191**	162
Consolidated finance costs									**192**	163

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012 (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 (i))		Elimination		Consolidated	
HK$ million	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Depreciation	**1**	1	**23**	20	**15**	19	**—**	—	**39**	40
Unallocated depreciation									**7**	9
Consolidated depreciation									**46**	49
Provision for impairment losses	**—**	—	**—**	1	**—**	—	**—**	—	**—**	1
Profit/(loss) before taxation	**215**	440	**472**	179	**(43)**	(41)	**—**	—	**644**	578
Unallocated corporate expenses									**(412)**	(385)
Consolidated profit before taxation									**232**	193
Income tax	**34**	72	**113**	45	**14**	8	**—**	—	**161**	125
Unallocated income tax									**4**	6
Consolidated income tax									**165**	131
Addition to non-current segment assets during the year	**—**	—	**26**	86	**84**	150	**—**	—	**110**	236
Unallocated addition									**2**	2
Consolidated addition to non-current segment assets during the year									**112**	238
Segment assets	**2,236**	1,794	**6,498**	6,169	**1,502**	1,522	**—**	—	**10,236**	9,485
Unallocated corporate assets									**289**	2,201
Consolidated total assets									**10,525**	11,686
Segment liabilities	**1,167**	1,087	**861**	749	**58**	68	**—**	—	**2,086**	1,904
Unallocated corporate liabilities									**2,745**	2,615
Consolidated total liabilities									**4,831**	4,519

5. SEGMENT INFORMATION – CONTINUED

a. Business segments – Continued

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

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, properties under development, properties held for development, intangible asset, 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 investment properties, property, plant and equipment and properties under development/held for development; and the location of the operation to which they are allocated, in the case of intangible asset, goodwill and other non-current receivables.

	Revenue from external customers		Specified non-current assets	
HK$ million	**2012**	2011	**2012**	2011
Hong Kong (place of domicile)	**833**	1,754	**72**	62
Mainland China	**258**	262	**5,935**	5,547
Japan	**93**	110	**634**	668
Thailand	**—**	—	**671**	620
	1,184	2,126	**7,312**	6,897

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012 (Amount expressed in Hong Kong dollars unless otherwise stated)

6. OTHER LOSSES, NET

	The Group	
HK$ million	**2012**	2011
Fair value loss on the derivative financial instrument (note 19)	**6**	—

7. FINANCE COSTS

	The Group	
HK$ million	**2012**	2011
Interest expenses:		
– Convertible notes wholly repayable over one year, but not exceeding two years	**177**	—
– Convertible notes wholly repayable over two years, but not exceeding five years	**—**	166
– Other borrowing costs	**16**	18
	193	184
Less: Interest expenses capitalised into properties under development	**(1)**	(21)
	192	163

The borrowing costs have been capitalised at 6.87 per cent per annum (2011: 6.87 per cent).

8. PROFIT BEFORE TAXATION

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

	The Group	
HK$ million	**2012**	2011
Crediting:		
Gross rental income from investment properties	**240**	262
Other rental income	**18**	—
Less: Outgoings	**(27)**	(20)
Other income from deposits forfeited	**—**	22
Surplus on revaluation of investment properties	**343**	43
Charging:		
Cost of properties sold	**547**	1,219
Depreciation	**46**	49
Staff costs, included in:		
– cost of sales	**12**	22
– general and administrative expenses	**167**	185
Contributions to defined contribution retirement schemes	**9**	7
Auditors' remuneration	**5**	4
Operating lease rental of land and buildings, included in		
– cost of sales	**11**	—
– general and administrative expenses	**46**	48
Operating lease rental of equipment	**3**	3
Provision for impairment of trade receivables	**—**	1
Net foreign exchange loss	**3**	3

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012 (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			
	2012				2011			
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	—	—	—	—	—	—	—	—
Lee Chi Hong, Robert	—	7,800	3,600	819	—	7,800	16,665	819
Alexander Anthony Arena (notes (i), (ii))	—	—	—	—	—	—	—	—
James Chan	—	4,982	2,698	523	—	3,401	2,500	357
Gan Kim See, Wendy	—	5,500	2,698	578	—	5,500	6,265	578
Lam Yu Yee	—	10,218	2,698	866	—	9,933	3,584	866
Independent Non-executive Directors								
Cheung Kin Piu, Valiant	210	—	—	—	210	—	—	—
Prof Wong Yue Chim, Richard, SBS, JP	210	—	—	—	210	—	—	—
Dr. Allan Zeman, GBM, GBS, JP	210	—	—	—	210	—	—	—
	630	28,500	11,694	2,786	630	26,634	29,014	2,620

(i) The remuneration of executive director employed by PCCW, the ultimate holding company of the Group, was borne by PCCW.

(ii) Resigned as an executive director on November 29, 2011.

(iii) The total directors' emoluments for the year ended December 31, 2012 were HK$44 million (2011: HK$59 million).

9. DIRECTORS' EMOLUMENTS – CONTINUED

b. Share-based compensation

The executive director employed by PCCW, whose value of service under PCCW's share option scheme was borne by PCCW, is excluded from the analysis below.

	The Group								
	2012								
	Grant date	Exercise price of share options HK$	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)) HK$'000	Realised benefits (note (i)) HK$'000
Executive Directors									
Lee Chi Hong, Robert	July 25, 2003	4.35	5,000,000	—	—	5,000,000	5,000,000	—	—
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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9. DIRECTORS' EMOLUMENTS – CONTINUED

b. Share-based compensation – Continued

			The Group 2011						
	Grant date	Exercise price of share options HK$	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)) HK$'000	Realised benefits (note (i)) HK$'000
Executive Directors									
Lee Chi Hong, Robert	July 25, 2003	4.35	5,000,000	—	—	5,000,000	5,000,000	—	—
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 2012 and 2011. 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 28.

10. FIVE TOP-PAID EMPLOYEES

a. Of the five highest paid individuals in the Group, four (2011: four) are directors whose emoluments are set out in note 9. Details of the emoluments of the remaining highest paid individual (2011: one) are as follows:

	The Group	
HK$ million	**2012**	2011
Salaries and other short-term employee benefits	**3**	4
Bonuses	**5**	—
	8	4

b. The emoluments of the remaining individual (2011: one) are within the emolument ranges as set out below:

	The Group Number of individuals	
	2012	2011
HK$4,000,001 – HK$4,500,000	**—**	1
HK$7,500,001 – HK$8,000,000	**1**	—
	1	1

The employees, whose emoluments are disclosed above, include senior executives who were also directors of the subsidiaries during the year.

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11. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5 per cent (2011: 16.5 per cent) on the estimated assessable profits for the year.

Taxation for Mainland China and 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	**2012**	2011
Hong Kong profits tax		
– Provision for current year	**35**	74
– Over provision in respect of prior years	**—**	(8)
Income tax outside Hong Kong		
– Provision for current year	**9**	15
– Under provision in respect of prior years	**1**	1
Deferred income tax relating to the origination and reversal of temporary differences	**120**	49
	165	131

11. INCOME TAX – CONTINUED

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

	The Group	
HK$ million	**2012**	2011
Profit before taxation	**232**	193
Notional tax on profit before taxation, calculated at 16.5 per cent (2011: 16.5 per cent)	**38**	32
Effect of different tax rates of subsidiaries operating outside Hong Kong	**38**	19
Tax effect of income not subject to taxation	**(2)**	(3)
Tax effect of expenses not deductible for taxation purposes	**67**	79
Tax losses for which no deferred income tax asset was recognised	**20**	11
Utilisation of previously unrecognised tax losses	**(1)**	(11)
Under/(over) provision in respect of prior years	**1**	(7)
Others	**4**	11
Income tax	**165**	131

12. DIVIDEND

HK$ million	**2012**	2011
Final dividend	**—**	—

There was no final dividend paid for 2012 and 2011.

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13. EARNINGS PER SHARE

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

	2012	2011
Earnings (HK$ million)		
Earnings for the purpose of calculating the basic earnings per share	**67**	62
Finance costs on 2014 Convertible Note recognised in the consolidated statement of comprehensive income	**176**	145
Earnings for the purpose of calculating the diluted earnings per share	**243**	207

	2012	2011
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating the basic earnings per share	**1,882,794,142**	2,407,459,873
Effect of dilutive potential ordinary shares on conversion of 2014 Convertible Note and the employee share options	**672,222,222**	672,222,222
Weighted average number of ordinary shares for the purpose of calculating the diluted earnings per share	**2,555,016,364**	3,079,682,095

The weighted average number of ordinary shares for the year ended December 31, 2012 and December 31, 2011 for the purpose of calculating the basic and diluted earnings per share has been retrospectively adjusted for the issuance of bonus shares and bonus convertible notes at four (4) bonus shares for every one (1) issued ordinary share and the five-to-one share consolidation which took place on June 22, 2012 and June 25, 2012 respectively.

Pursuant to the terms of the applicable deed poll, the bonus convertible notes will confer the holders the same economic interests attached to the bonus shares. The aggregated amount of HK$592,554,154.40 outstanding bonus convertible notes which could be converted into 1,185,108,308 fully paid ordinary shares of HK$0.50 each is included in the weighted average number of ordinary shares for calculating the basic earnings per share for the year ended December 31, 2012 and December 31, 2011.

13. EARNINGS PER SHARE – CONTINUED

As the effect of the issuance of bonus shares and bonus convertible notes, and the share consolidation was netted off, there was no impact on the basic and diluted earnings per share for the year ended December 31, 2011.

The diluted earnings per share for the years ended December 31, 2012 and December 31, 2011 are the same as the basic earnings per share as all potential additional ordinary shares are anti-dilutive.

14. INVESTMENT PROPERTIES

	The Group	
HK$ million	**2012**	2011
At January 1,	**5,469**	5,152
Capitalised subsequent expenditures	**19**	35
Surplus on revaluation of investment properties	**343**	43
Exchange differences	**52**	239
At December 31,	**5,883**	5,469

Investment property in Mainland China was revalued as at December 31, 2012 by an independent professional valuer on a market value basis. Certain furnished equipment and furniture amounted to HK$58 million (2011: HK$70 million) included in the valuation of the investment property is recognised separately as property, plant and equipment.

For the investment property in Hong Kong, the usage of this property is constrained by the Group's undertaking to the lessee. With reference to the valuation performed by an independent professional valuer as at December 31, 2012, management has performed a valuation as at December 31, 2012 using income capitalisation method assuming such constraint and current tenancy agreement will continue in its existing manner in the foreseeable future.

The increase in fair value of the investment properties in 2012 amounted to HK$343 million (2011: increase by HK$43 million) was credited to the consolidated income statement as "Surplus on revaluation of investment properties".

In the consolidated income statement, cost of sales includes direct operating expenses of HK$27 million (2011: HK$20 million) that generate rental income while direct operating expenses of HK$4 million (2011: HK$5 million) relating to investment properties that were unlet.

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14. INVESTMENT PROPERTIES – CONTINUED

The carrying amount of investment properties is analysed as follows:

	The Group	
HK$ million	**2012**	2011
Held in Hong Kong		
– On long lease (over 50 years)	**52**	45
Held in Mainland China		
– On long lease (over 50 years)	**1,032**	981
– On medium-term lease (10-50 years)	**4,799**	4,443
	5,883	5,469

15. PROPERTY, PLANT AND EQUIPMENT

	The Group				
HK$ million	Freehold land	Buildings and structures	Other plant and equipment	Projects under constructions	Total
At January 1, 2011					
At cost	7	69	296	8	380
Less: Accumulated depreciation	—	(7)	(158)	—	(165)
Net book value	7	62	138	8	215
Net book value at January 1, 2011	7	62	138	8	215
Additions	—	52	51	—	103
Transfers	—	—	2	(2)	—
Disposals	—	—	(1)	—	(1)
Depreciation	—	(4)	(45)	—	(49)
Exchange differences	—	6	7	—	13
Net book value at December 31, 2011	7	116	152	6	281
At December 31, 2011					
At cost	7	128	300	6	441
Less: Accumulated depreciation	—	(12)	(148)	—	(160)
Net book value	7	116	152	6	281
Net book value at January 1, 2012	**7**	**116**	**152**	**6**	**281**
Additions	**—**	**5**	**8**	**2**	**15**
Disposals	**—**	**—**	**(1)**	**—**	**(1)**
Depreciation	**—**	**(5)**	**(41)**	**—**	**(46)**
Exchange differences	**(1)**	**(10)**	**(1)**	**(2)**	**(14)**
Net book value at December 31, 2012	**6**	**106**	**117**	**6**	**235**
At December 31, 2012					
At cost	**6**	**121**	**299**	**6**	**432**
Less: Accumulated depreciation	**—**	**(15)**	**(182)**	**—**	**(197)**
Net book value	**6**	**106**	**117**	**6**	**235**

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

a. Properties under development

	The Group	
HK$ million	**2012**	2011
At January 1,	**508**	428
Additions	**30**	56
Exchange differences	**(48)**	24
At December 31,	**490**	508

Properties under development as at December 31, 2012 represents freehold land in Japan which is held by an indirect wholly-owned subsidiary. Management has performed assessments on the recoverable amount of the development project in Japan recognised under properties under development as at 31 December, 2012, taken into account of the valuation provided by an independent professional valuer. The valuation is based on the cash flow forecast of the development project which involves the use of various estimates and assumptions such as selling price, construction costs and discount rate. Change of the assumptions adopted in the valuation may result in a change in future estimates of the recoverable amount of the development project.

b. Properties held for development

	The Group	
HK$ million	**2012**	2011
At January 1,	**618**	624
Additions	**42**	22
Exchange differences	**18**	(28)
At December 31,	**678**	618

Properties held for development as at December 31, 2012 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 22).

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

c. Properties held for sale

	The Group	
HK$ million	**2012**	2011
Properties held for sale	**215**	456

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.

17. INTANGIBLE ASSET

	The Group	
HK$ million	**2012**	2011
Cost:		
At January 1,	**14**	—
Additions	**6**	14
At December 31,	**20**	14
Accumulated amortisation:		
At January 1 and December 31,	**—**	—
Carrying amount:		
At December 31,	**20**	14

Intangible asset as at December 31, 2012 represents the right for rental collection.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012 (Amount expressed in Hong Kong dollars unless otherwise stated)

18. GOODWILL

	The Group	
HK$ million	**2012**	2011
Cost:		
At January 1, and December 31,	**100**	100
Accumulated impairment losses:		
At January 1, and December 31,	**(96)**	(96)
Carrying amount:		
At December 31,	**4**	4

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

	The Group	
HK$ million	**2012**	2011
Other business – property management operations	**4**	4
At December 31,	**4**	4

Management has performed assessments on the recoverable amount of the property management operations which are determined based on the cash flow forecast of the business. Management considered there is no impairment of goodwill in relation to the property management operations as at December 31, 2012.

The impairment losses recognised in prior years related to the property development division and ski operation.

19. DERIVATIVE FINANCIAL INSTRUMENT

On March 2, 2012, PCPD Wealth Limited (an indirect wholly-owned subsidiary of the Company) as the issuer, PCCW-HKT Partners Limited ("PCCW-HKT") (a wholly-owned subsidiary of PCCW) as the subscriber and the Company as the guarantor, entered into a subscription agreement, whereby, subject to the terms and conditions set out therein, PCCW-HKT agreed to subscribe for a new convertible note due in 2019 ("2019 Convertible Note") on the maturity date (being May 9, 2014) of the existing convertible note ("2014 Convertible Note") (note 24). The subscription for the 2019 Convertible Note will be effected by applying the whole of the redemption amount due, and not repaid, on the maturity of the 2014 Convertible Note to the payment of the subscription money on May 9, 2014. Management considered that the right to issue the 2019 Convertible Note is not a modification of the 2014 Convertible Note. It is recognised as a derivative financial instrument at fair value as at March 2, 2012 of HK$10 million which is credited to equity under "Other reserves" as a contribution from the equity holder of the Company. Fair value loss on the derivative financial instrument of HK$6 million is recognised during the year (note 6).

20. OTHER FINANCIAL ASSETS

Financial assets at fair value through profit or loss:

	The Group	
HK$ million	**2012**	2011
Listed equity securities, Hong Kong	**2**	—
Less: Amount classified as current assets	**(1)**	—
	1	—

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21. INVESTMENT IN A SUBSIDIARY

	The Company	
HK$ million	**2012**	2011
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, 2012, the Group has financed the operations of certain of its entities in Mainland China amounting to approximately US$112 million (2011: US$110 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, 2012 were HK$7,070 million (2011: HK$7,102 million) and the amount due to a subsidiary as at December 31, 2012 was HK$4,696 million (2011: HK$3,172 million).

22. 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%
Cyber-Port Limited 資訊港有限公司	Hong Kong	Property development	HK$2	—	100%
Cyber-Port Management Limited	Hong Kong	Provision of management services	HK$2	—	100%

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22. 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
Dong Si (Holdings) Limited 盈科優質創建有限公司	Hong Kong	Leasing and financing	HK$1	—	100%
Harmony TMK	Japan	Property development	JPY4,250,000,000 (JPY100,000,000 specified capital and JPY4,150,000,000 preference shares)	—	100%
Ipswich Holdings Limited	British Virgin Islands	Investment holding	US$2	100%	—
Island South Property Management Limited 南盈物業管理有限公司	Hong Kong	Property management	HK$2	—	100%
Kabushiki Kaisha Niseko Management Service	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	Japan	Ski operation	JPY405,000,000	—	100%

22. 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
PCPD Facilities Management Limited	Hong Kong	Property management	HK$2	—	100%
PCPD Real Estate Agency Limited	Hong Kong	Real estate agency services	HK$2	—	100%
PCPD Services Limited	Hong Kong	Provision of administrative services	HK$2	—	100%
PCPD Wealth Limited	Hong Kong	Financial services	HK$1	—	100%
Pride Pacific Limited 普曜有限公司	Hong Kong	Financial services	HK$2	—	100%
Talent Master Investments Limited	British Virgin Islands/ Hong Kong	Property development and investment	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%

Note:

[1] Represents a wholly foreign owned enterprise.

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23. 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 project that are retained in bank accounts opened and maintained by stakeholders. The amount is related to residential portion of Cyberport project and 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$678 million as at December 31, 2012 (2011: HK$632 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$1,319 million as at December 31, 2012 (2011: HK$696 million) held in specific bank accounts. The uses of the funds are specified in the Cyberport Project Agreement.

c. Trade receivables, net

	The Group	
HK$ million	**2012**	2011
Trade receivables	**25**	14
Less: Provision for impairment	**(2)**	(2)
	23	12

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 which ranges up to 30 days from the date of the invoice unless there is separate mutual agreement on extension of the credit period.

23. 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	**2012**	2011
Renminbi	**11**	7
Hong Kong dollar	**8**	2
Japanese yen	**4**	3
	23	12

(i) Aging analysis

An aging analysis of trade receivables, based on the normal credit period from the invoice date and before allowance for provision for receivable impairment, is set out below:

	The Group	
HK$ million	**2012**	2011
Current	**20**	8
One to three months	**2**	3
More than three months	**3**	3
	25	14

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23. 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	**2012**	2011
At January 1,	**2**	1
Impairment losses recognised	**—**	1
At December 31,	**2**	2

(iii) Trade receivables of HK$25 million (2011: HK$14 million) are exposed to credit risk. Trade receivable of HK$2 million was impaired (2011: HK$2 million) and the amount of provision was HK$2 million as at December 31, 2012 (2011: HK$2 million). The other amounts in trade receivables balance relate to a wide range of customers for whom there is no recent history of default.

As at December 31, 2012, HK$1 million trade receivables were past due over three months but not impaired (2011: HK$1 million). Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

d. Short-term borrowings

	The Group	
HK$ million	**2012**	2011
Bank borrowings – Secured	**—**	9

On September 22, 2009, an indirect wholly-owned subsidiary of the Company entered into the RMB Facility Agreement which the lender would make available a term loan facility up to the aggregate amount of RMB10 million (the “2009 RMB Facility”), which was secured by the assets owned by the indirect wholly-owned subsidiary. On December 10, 2009, the indirect wholly-owned subsidiary made a drawdown of RMB10 million. On August 3, 2011, a supplemental agreement was entered with the lender which the loan would be repaid in four equal instalments on December 12, 2011, March 12, 2012, June 12, 2012 and September 24, 2012. The loan was fully repaid on September 24, 2012.

23. CURRENT ASSETS AND LIABILITIES – CONTINUED

d. Short-term borrowings – Continued

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 "2009 HKD Facility"). Such facility was secured by the shares and assets of certain indirect wholly-owned subsidiaries. No drawdown under this revolving loan facility was made by the Group upon the expiry on September 24, 2012. The 2009 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. Up to the expiry date on September 24, 2012, none of the covenants were breached.

On October 8, 2012, an indirect wholly-owned subsidiary of the Company was granted a three-year term and revolving loan facility up to an aggregate amount of HK$3,000 million (the "2012 HKD Facility"). Such facility was secured by the shares and assets of certain indirect wholly-owned subsidiaries. No drawdown under 2012 HKD Facility was made by the Group as at December 31, 2012.

Similar to 2009 HKD Facility as stated above, the 2012 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 37(c). As at December 31, 2012, none of the covenants were breached.

On October 8, 2012, an indirect wholly–owned subsidiary of the Company entered into a new RMB Facility Agreement which the lender would make available a three-year term loan facility up to an aggregate amount of RMB100 million (the "2012 RMB Facility"). The 2012 RMB Facility is a fixed asset loan, which shall be used towards the construction costs, and any other costs and expenses in connection with the refurbishment, redecoration or maintenance or any other improvements of the assets owned by the indirect wholly-owned subsidiary. The RMB Facility was secured by the assets owned by the indirect wholly-owned subsidiary. No drawdown under this RMB Facility was made by the Group as at December 31, 2012.

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23. CURRENT ASSETS AND LIABILITIES – CONTINUED

e. Trade payables

An aging analysis of trade payables, based on invoice date, is set out below:

	The Group	
HK$ million	**2012**	2011
Current	**15**	42
One to three months	**—**	2
More than three months	**—**	1
	15	45

f. 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.

24. LONG-TERM BORROWINGS

	The Group	
HK$ million	**2012**	2011
Repayable within a period		
– not exceeding one year	**24**	24
– over one year, but not exceeding two years	**2,657**	—
– over two years, but not exceeding five years	**—**	2,505
	2,681	2,529
Representing:		
HK$2,420 million 2014 Convertible Note due in 2014	**2,681**	2,529
Unsecured	**2,681**	2,529

The 2014 Convertible Note 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$0.50 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 of May 9, 2014) at the relevant conversion price.

The 2014 Convertible Note 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, the issuer of the 2014 Convertible Note, to purchase 672,222,222 shares of the Company at HK$3.60 per share with expiry in 2014.

Interest expense on the 2014 Convertible Note is calculated using the effective interest method by applying the effective interest rate of 6.87 per cent (2011: 6.87 per cent) to the liability component.

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

	The Group		
	2012		
HK$ million	**Government share under the Cyberport Project Agreement (note a)**	**Others**	**Total**
At January 1, 2012	**569**	**34**	**603**
Addition to amount payable	**385**	**1**	**386**
Settlement during the year	**—**	**(30)**	**(30)**
At December 31, 2012	**954**	**5**	**959**

	The Group		
	2011		
HK$ million	Government share under the Cyberport Project Agreement (note a)	Others	Total
At January 1, 2011	1,574	32	1,606
Addition to amount payable	1,100	2	1,102
Settlement during the year	(2,105)	—	(2,105)
At December 31, 2011	569	34	603

a. Pursuant to the Cyberport Project Agreement (note 16(c)), 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.

26. ISSUED EQUITY

	The Group	
	Number of shares	**Issued equity HK$ million**
	(note a)	**(note a)**
Ordinary shares of HK$0.10 each at December 31, 2011	**2,407,459,873**	**4,321**
Share repurchased and cancelled (note c)	**(824,684,851)**	**(1,526)**
Bonus issue of shares on June 22, 2012 (note d)	**405,378,544**	**41**
Ordinary shares of HK$0.10 each at June 22, 2012	**1,988,153,566**	**2,836**
Effect to the number of shares after increase in nominal value of each share from HK$0.10 to HK$0.50 upon share consolidation taking effect on June 25, 2012 (note f)	**(1,590,522,853)**	**—**
Conversion of bonus convertible notes (note g)	**36,000**	**—**
Ordinary shares of HK$0.50 each at December 31, 2012 (note h)	**397,666,713**	**2,836**

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 the 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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26. ISSUED EQUITY – CONTINUED

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

	The Company	
	Number of shares	Nominal value HK$ million
Authorised:		
Ordinary shares of HK$0.10 each at December 31, 2011	10,000,000,000	1,000
Increase in authorised share capital on May 2, 2012 (note e)	10,000,000,000	1,000
Ordinary shares of HK$0.10 each at May 2, 2012	20,000,000,000	2,000
Effect to the number of shares after increase in nominal value of each share from HK$0.10 to HK$0.50 upon share consolidation taking effect on June 25, 2012 (note f)	(16,000,000,000)	—
Ordinary shares of HK$0.50 each at December 31, 2012	4,000,000,000	2,000
Issued and fully paid:		
Ordinary shares of HK$0.10 each at December 31, 2011	2,407,459,873	241
Share repurchased and cancelled (note c)	(824,684,851)	(83)
Bonus issue of shares on June 22, 2012 (note d)	405,378,544	41
Ordinary shares of HK$0.10 each at June 22, 2012	1,988,153,566	199
Effect to the number of shares after increase in nominal value of each share from HK$0.10 to HK$0.50 upon share consolidation taking effect on June 25, 2012 (note f)	(1,590,522,853)	—
Conversion of bonus convertible notes (note g)	36,000	—
Ordinary shares of HK$0.50 each at December 31, 2012 (note h)	397,666,713	199

c. Pursuant to an ordinary resolution passed at the special general meeting of the Company held on May 2, 2012 in respect of the approval of the conditional cash offer to repurchase shares of the Company ("Offer") and the announcement dated May 16, 2012 in relation to the results of the Offer, 824,684,851 ordinary shares of HK$0.10 each were repurchased in May 2012 for cancellation at a price of HK$1.85 per share. These shares were subsequently cancelled after repurchase.

26. ISSUED EQUITY – CONTINUED

d. Pursuant to an ordinary resolution passed at the special general meeting of the Company held on May 2, 2012 and the announcements dated May 16, 2012 and June 21, 2012 in relation to the bonus issue of shares (with a right for shareholders to elect to receive bonus convertible notes in lieu of bonus shares), 405,378,544 bonus shares of HK$0.10 each were allotted and issued on June 22, 2012 on the basis of four (4) bonus shares for every one (1) issued share held by the qualifying shareholders of the Company whose names appeared on the register of members of the Company on May 30, 2012 (other than those qualifying shareholders who had elected to receive bonus convertible notes in lieu of all of their entitlement to the bonus shares).

   Bonus convertible notes of HK$592,572,154.40 at the conversion price of HK$0.10 per share was issued by the Company on June 22, 2012. Immediately after the share consolidation which took effect on June 25, 2012 (see note 26(f)), the conversion price of the bonus convertible notes was adjusted from HK$0.10 per share to HK$0.50 per share pursuant to the terms of the applicable deed poll.

   The bonus convertible notes are unlisted and irredeemable but have conversion rights entitling the noteholders to convert into an equivalent number of shares as the number of bonus shares which the noteholders would otherwise be entitled to receive under the bonus issue had the shareholder not elected for the bonus convertible notes. The bonus convertible notes do not carry voting rights at any general meeting of shareholders of the Company. The noteholders can exercise the conversion rights at any time after the issue of bonus convertible notes, subject to the terms and conditions of the applicable deed poll constituting the bonus convertible notes. The bonus convertible notes were recognised as equity and are presented in "Convertible notes reserve".

e. Pursuant to an ordinary resolution passed at the special general meeting of the Company held on May 2, 2012, the authorised share capital of the Company was increased from HK$1,000,000,000 divided into 10,000,000,000 shares of HK$0.10 each to HK$2,000,000,000 divided into 20,000,000,000 shares of HK$0.10 each by the creation of 10,000,000,000 new shares of HK$0.10 each.

f. Pursuant to an ordinary resolution passed at the special general meeting of the Company held on June 20, 2012, every five (5) issued and unissued shares of HK$0.10 each were consolidated into one (1) share of HK$0.50 with effect from June 25, 2012. Following the share consolidation becoming effective on June 25, 2012, the authorised share capital of the Company became HK$2,000,000,000 divided into 4,000,000,000 shares of HK$0.50 each, of which 397,630,713.2 shares are in issue and fully paid. The shares after the share consolidation rank pari passu in all respects with each other.

g. During the year ended December 31, 2012, bonus convertible notes in the amount of HK$18,000 were exercised and converted into 36,000 ordinary shares.

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26. ISSUED EQUITY – CONTINUED

h. As at December 31, 2012, the number of the total issued and fully paid consolidated ordinary shares of HK$0.50 each was 397,666,713.2. Fractional shares amounted to 1.2 ordinary shares of HK$0.50 each were generated from the share consolidation on June 25, 2012 and are retained by the Company in accordance with the terms of the share consolidation. Such fractional shares are registered under the name of an indirect wholly-owned subsidiary of the Company. Amongst such 1.2 fractional shares, 0.2 share of which is not tradable on the main board of The Stock Exchange of Hong Kong Limited and such 0.2 share is not shown in this section.

27. EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement schemes

Employees of the Group are entitled to join the defined contribution retirement schemes operated by PCCW, including the Mandatory Provident Fund Scheme (the “MPF scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The schemes are administered by independent trustees.

Under the defined contribution retirement scheme, the employer is required to make contributions to the scheme at rates specified under the rules of the scheme. Where employees leave the scheme prior to the full vesting of the employer’s contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5 per cent of the employees’ relevant income, subject to a cap of monthly relevant income of HK$20,000 up to and including May 31, 2012 and HK$25,000 thereafter. Contributions to the scheme vest immediately upon the completion of the service in the relevant service period.

28. EQUITY COMPENSATION BENEFITS

a. 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).

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28. EQUITY COMPENSATION BENEFITS – CONTINUED

a. Share option scheme – Continued

Details of share options granted by the Company pursuant to the 2003 share option scheme and the share options outstanding at December 31, 2012, are as follows:

(i) Movements in share options

	Number of options 2012	Number of options 2011
At January 1, and December 31,	**5,000,000**	5,000,000
Options vested at December 31,	**5,000,000**	5,000,000

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

Date of grant	Exercise period	Exercise price HK$	2012 Consideration received HK$	2012 Number of options	2011 Consideration received HK$	2011 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, 2012 and December 31, 2011, 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, 2012.

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

	2012 Average exercise price in HK$ per share	2012 Number of options	2011 Average exercise price in HK$ per share	2011 Number of options
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.

28. EQUITY COMPENSATION BENEFITS – CONTINUED

a. Share option scheme – Continued

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".

b. Share award scheme

PCCW established two employee share incentive award schemes under which awards of PCCW shares may be granted to employees of participating subsidiaries. The Group is a participating member of the PCCW employee share incentive award schemes. Under both schemes, following the making of an award to two employees, the relevant shares are held on trust for the employees and then vest over a period of time provided that they remain employees of the Group at the relevant time and satisfies any other conditions specified at the time the award is made.

Details of the accounting policies for the shares granted to the employees of the Group are described in note 2 (v)(iv). Since PCCW shares were purchased, the Group recognises it as cash-settled share-based payment transaction.

A summary of movements in PCCW shares held under the share award scheme that is attributable to the Group during the year is as follows:

	Number of PCCW shares	
	2012	2011
At January 1,	**—**	—
PCCW shares granted during the year	**672,414**	—
At December 31,	**672,414**	—

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29. RESERVES

The Company

2012

HK$ million	Share premium	Capital redemption reserve	Convertible notes reserve	Employee share-based compensation reserve	Retained earnings	Total
Balance at January 1, 2012	**3,882**	**1**	**769**	**17**	**1,890**	**6,559**
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**(4)**	**(4)**
Transactions with owners:						
– Share repurchased and cancelled (note 26 (c))	**(1,443)**	**—**	**—**	**—**	**—**	**(1,443)**
– Issued bonus shares and issued bonus convertible notes (note 26 (d))	**—**	**—**	**592**	**—**	**(633)**	**(41)**
– Direct expenses related to share repurchase, issue of bonus shares and bonus convertible notes	**—**	**—**	**—**	**—**	**(27)**	**(27)**
Balance at December 31, 2012	**2,439**	**1**	**1,361**	**17**	**1,226**	**5,044**

The Company

2011

HK$ million	Share premium	Capital redemption reserve	Convertible notes reserve	Employee share-based compensation reserve	Retained earnings	Total
Balance at January 1, 2011	3,882	1	769	17	1,558	6,227
Total comprehensive income for the year	—	—	—	—	332	332
Balance at December 31, 2011	3,882	1	769	17	1,890	6,559

30. EMPLOYEE SHARE-BASED COMPENSATION RESERVE

HK$ million	The Group 2012	2011
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(v)(iii)).

31. 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, 2011	330	282	(21)	591
Charged to consolidated income statement	31	9	9	49
Exchange differences	16	13	—	29
At December 31, 2011	377	304	(12)	669
At January 1, 2012	**377**	**304**	**(12)**	**669**
Charged to consolidated income statement	**40**	**75**	**5**	**120**
Exchange differences	**4**	**3**	**—**	**7**
At December 31, 2012	**421**	**382**	**(7)**	**796**

NOTES TO THE FINANCIAL STATEMENTS

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31. DEFERRED INCOME TAX – CONTINUED

	The Group	
HK$ million	**2012**	2011
Deferred income tax liabilities recognised in the consolidated balance sheet	**815**	689
Less: Amount of deferred income tax assets netted off against deferred income tax liabilities recognised in the consolidated balance sheet	**(19)**	(20)
At December 31,	**796**	669

b. The Group has unrecognised estimated tax losses of HK$438 million as at December 31, 2012 (2011: HK$344 million) to be carried forward for deduction against future taxable profits. HK$271 million (2011: HK$183 million) tax losses relating to subsidiaries operating outside Hong Kong would be expired within one to nine years from December 31, 2012 (2011: one to seven years), the remaining HK$167 million (2011: HK$161 million) tax losses are mainly relating to Hong Kong companies which can be carried forward indefinitely.

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

	The Group	
HK$ million	**2012**	2011
Profit before taxation	**232**	193
Adjustments for:		
– interest income	**(25)**	(28)
– finance costs	**192**	163
– depreciation	**46**	49
– provision for impairment losses	**—**	1
– fair value loss on the derivative financial instrument	**6**	—
– surplus on revaluation of investment properties	**(343)**	(43)
Operating profit before changes in working capital	**108**	335

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS – CONTINUED

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

HK$ million	The Group 2012	2011
Decrease/(Increase) in operating assets:		
– properties under development/held for sale	**212**	281
– properties held for development	**(42)**	(22)
– other financial assets	**(2)**	—
– other non-current receivables	**1**	—
– prepayments, deposits and other current assets	**13**	(31)
– sales proceeds held in stakeholders' accounts	**(46)**	213
– restricted cash	**(616)**	1,546
– trade receivables, net	**(11)**	(3)
– amounts due from fellow subsidiaries	**13**	34
– amounts due from related companies	**1**	—
Increase/(Decrease) in operating liabilities:		
– trade payables, accruals, other payables and deferred income	**(249)**	(404)
– deposits received on sales of properties	**(36)**	(1)
– amounts due to fellow subsidiaries	**10**	—
– amount payable to the HKSAR Government under the Cyberport Project Agreement	**356**	(1,003)
– other non-current payables	**1**	—
Cash (used in)/generated from operations	**(287)**	945
Other borrowing costs paid	**(94)**	(24)
Interest received	**29**	34
Tax paid		
– in Hong Kong	**(62)**	(137)
– outside Hong Kong	**(12)**	(14)
Net cash (used in)/generated from operating activities	**(426)**	804

NOTES TO THE FINANCIAL STATEMENTS

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32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS – CONTINUED

b. Analysis of cash and cash equivalents

	The Group	
HK$ million	**2012**	2011
Cash and bank balances	**2,148**	3,558
Less: Restricted cash	**(1,319)**	(703)
	829	2,855

33. COMMITMENTS

a. Capital

	The Group	
HK$ million	**2012**	2011
Authorised and contracted for	**90**	117
Authorised but not contracted for	**6**	10
	96	127

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

	The Group	
HK$ million	**2012**	2011
Property development projects	**58**	86
Intangible asset	**23**	29
Investment properties	**13**	11
Property, plant and equipment	**—**	—
Others	**2**	1
	96	127

33. COMMITMENTS – CONTINUED

b. Operating leases

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

Land and buildings (as lessee)

	The Group	
HK$ million	**2012**	2011
Within one year	**41**	47
After one year but within five years	**39**	72
After five years	**—**	6
	80	125

The leases typically run for an initial period of one to six years. One of these leases include contingent rental.

Equipment (as lessee)

	The Group	
HK$ million	**2012**	2011
Within one year	**3**	5
After one year but within five years	**2**	1
	5	6

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

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33. 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 fifteen years. Seven of the leases include contingent rentals 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	**2012**	2011
Within one year	**182**	179
After one year but within five years	**283**	305
After five years	**46**	70
	511	554

34. CONTINGENT LIABILITIES

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

(i) The Company has provided a guarantee to the noteholder of the 2014 Convertible Note in respect of the performance of its indirect wholly-owned subsidiary's obligation under the 2014 Convertible Note including the due and punctual payment of all sums under the 2014 Convertible Note and the issuances of 672,222,222 shares of the Company at HK$3.60 per share upon conversion of the 2014 Convertible Note by the noteholder (note 24). Such guarantee has no impact to the Group's consolidated financial statements.

(ii) On October 8, 2012, the Company and an indirect wholly-owned subsidiary had executed guarantees in favour of the lenders of a term and revolving loan facility, the 2012 HKD Facility, in the principal amount of HK$3,000 million granted to an indirect wholly-owned subsidiary. As at December 31, 2012, no drawdown was made under the 2012 HKD Facility (note 23(d)).

(iii) One of the indirect wholly-owned subsidiaries has agreed to reimburse to one of its lessees such that in case the alteration of its properties could not be carried out in order to allow the expansion of the existing leased areas of the lessee, the indirect wholly-owned subsidiary would purchase the refurbishment at the carrying value from the lessee up to RMB10 million, provided that the lessee serves termination notice due to the aforesaid reason. As at the reporting date, the estimated carrying value is up to approximately RMB6 million.

35. BANKING FACILITY

Aggregate banking facilities as at December 31, 2012 were HK$3,124 million (2011: HK$2,809 million) of which the unused facilities amounted to HK$3,124 million (2011: HK$2,800 million). Summary of major borrowings is set out in note 23(d) and note 24.

Security pledged for certain banking facilities includes:

	The Group	
HK$ million	**2012**	2011
Investment properties	**5,831**	5,424

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36. MATERIAL RELATED PARTY TRANSACTIONS

The Group is controlled by PCCW which owns 74.50 per cent (2011: 61.53 per cent) of the Company's shares. The remaining 25.50 per cent of the shares are held by public as at December 31, 2012 (the remaining 38.47 per cent of the shares are held by public and by a substantial shareholder as at December 31, 2011).

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	**2012**	2011
Sales of services:		
– Fellow subsidiaries		
Office leases rental	**11**	10
Other services	**1**	1
– Related companies		
Facility management services	**26**	22
Office leases rental	**1**	1
Other services	**1**	3
Purchases of services:		
– Fellow subsidiaries		
Corporate services	**11**	5
Office sub-leases	**7**	6
Information technology and other logistic services	**4**	5

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.

36. MATERIAL RELATED PARTY TRANSACTIONS – CONTINUED

b. Details of key management compensation

	The Group	
HK$ million	**2012**	2011
Salaries and other short-term employee benefits	**28**	26
Bonuses	**12**	29
Directors' fee	**1**	1
Post-employment benefits	**3**	3
	44	59

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

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

	The Group	
HK$ million	**2012**	2011
Receivables from related parties:		
– Fellow subsidiaries	**3**	16
– Related companies	**2**	3
	5	19
Payables to related parties:		
– Fellow subsidiaries	**14**	4

NOTES TO THE FINANCIAL STATEMENTS

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36. MATERIAL RELATED PARTY TRANSACTIONS – CONTINUED

d. Loan from a fellow subsidiary

The loan from a fellow subsidiary represents the face value of the 2014 Convertible Note with principal value of HK$2,420 million (see note 24 for details). The movements of the face value of the loan from a fellow subsidiary during the year are as follows:

	The Group	
HK$ million	**2012**	2011
At January 1,	**2,790**	2,742
Interest expenses	**24**	24
Interest paid	**(24)**	(24)
Provision for redemption premium	**49**	48
At December 31,	**2,839**	2,790

37. 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.

37. FINANCIAL RISK MANAGEMENT – CONTINUED

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 was significant to the Group is as follows:

	The Group			
	2012		2011	
HK$ million	**US dollar**	**Japanese yen**	US dollar	Japanese yen
Cash and cash equivalents	**157**	**5**	906	28

The Group has certain investments in foreign operations, where the net assets are exposed to foreign currency translation risk. The Group's currency exposures with respect to these operations are mainly from Renminbi, Thai baht and Japanese yen.

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37. FINANCIAL RISK MANAGEMENT – CONTINUED

a. Foreign exchange risk – Continued

Sensitivity analysis for foreign currency exposure

A five (5) per cent appreciation of Hong Kong dollar against the following currencies at December 31, 2012 would have decreased 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 2011.

	The Group			
	2012		2011	
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	**(8)**	**—**	(45)	—
Renminbi	**—**	**(284)**	—	(273)
Thai baht	**—**	**(34)**	—	(31)
Japanese yen	**—**	**(32)**	(1)	(36)

The Company is not exposed to material foreign exchange risk.

37. FINANCIAL RISK MANAGEMENT – CONTINUED

b. Credit risk

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

As at December 31, 2012, the Group has a certain concentration of credit risk as 59 per cent (2011: 42 per cent) of the total trade receivables was due from three customers.

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

Cash and cash equivalents

	The Group	
HK$ million	**2012**	2011
Aa1	**—**	50
Aa2	**163**	—
Aa3	**111**	2,141
A1	**303**	339
A2	**218**	210
Baa1	**10**	6
Baa2	**12**	89
Unrated	**12**	20
	829	2,855

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012 (Amount expressed in Hong Kong dollars unless otherwise stated)

37. FINANCIAL RISK MANAGEMENT – CONTINUED

b. Credit risk – Continued

Restricted cash

	The Group	
HK$ million	**2012**	2011
Aaa	—	696
Aa1	**1,319**	—
Unrated	—	7
	1,319	703

37. 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 date 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, 2012						
Trade payables	**15**	**—**	**—**	**—**	**15**	**15**
Accruals and other payables	**325**	**—**	**—**	**—**	**325**	**325**
Amounts due to fellow subsidiaries	**14**	**—**	**—**	**—**	**14**	**14**
Amount payable to the HKSAR Government under the Cyberport Project Agreement	**959**	**—**	**—**	**—**	**959**	**959**
Other non-current payable	**—**	**1**	**—**	**—**	**1**	**1**
Long-term borrowings	**24**	**2,913**	**—**	**—**	**2,937**	**2,681**
At December 31, 2011						
Short-term borrowings	9	—	—	—	9	9
Trade payables	45	—	—	—	45	45
Accruals and other payables	556	—	—	—	556	556
Amounts due to fellow subsidiaries	4	—	—	—	4	4
Amount payable to the HKSAR Government under the Cyberport Project Agreement	603	—	—	—	603	603
Long-term borrowings	24	24	2,913	—	2,961	2,529

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012 (Amount expressed in Hong Kong dollars unless otherwise stated)

37. 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 risks arise 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			
	2012		2011	
	Effective interest rate	**HK$ million**	Effective interest rate	HK$ million
Fixed rate borrowings:				
Loan from a fellow subsidiary (note 36(d))	**6.87%**	**2,839**	6.87%	2,790
Variable rate borrowings:				
Bank borrowings (note 23(d))	**—**	**—**	5.99%	9
Total borrowings		**2,839**		2,799

38. 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 increased from a net cash position as at December 31, 2011 to 56 per cent as at December 31, 2012 due to the conditional cash offer to repurchase shares of the Company (note 26 (c)). Management's strategy is to maintain the debt-to-adjusted capital ratio within 20 per cent and will closely monitor the development with aim to return to such level. The debt-to-adjusted capital ratios at both December 31, 2012 and 2011 are as follows:

	The Group	
HK$ million	**2012**	2011
Loan from a fellow subsidiary (note 36(d))	**2,839**	2,790
Bank loan	**—**	9
Less: Cash and cash equivalents (note 32(b))	**(829)**	(2,855)
Net debt/(cash)	**2,010**	(56)
Issued equity	**2,836**	4,321
Add: Retained earnings	**761**	1,354
Adjusted capital	**3,597**	5,675
Debt-to-adjusted capital ratio	**56%**	N/A

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

(Expressed in Hong Kong dollars)

Results

HK$ million	2012	2011	2010	2009	2008
Turnover by Principal Activities					
Property development	791	1,710	1,100	3,855	9,557
Property investment	240	262	216	214	230
Other businesses	153	154	179	153	156
	1,184	2,126	1,495	4,222	9,943
Operating profit	399	328	1,409	966	693
Finance costs, net	(167)	(135)	(158)	(144)	(52)
Profit before taxation	232	193	1,251	822	641
Income tax	(165)	(131)	(387)	(228)	(128)
Profit attributable to equity holders of the Company	67	62	864	594	513

Assets and Liabilities, as at December 31,

HK$ million	2012	2011	2010	2009	2008
Total non-current assets	7,317	6,897	6,426	4,973	5,613
Total current assets	3,208	4,789	6,218	8,776	13,825
Total current liabilities	(1,377)	(1,345)	(2,814)	(2,331)	(7,428)
Net current assets	1,831	3,444	3,404	6,445	6,397
Total assets less current liabilities	9,148	10,341	9,830	11,418	12,010
Total non-current liabilities	(3,454)	(3,174)	(2,965)	(2,507)	(3,573)
Net assets	5,694	7,167	6,865	8,911	8,437

SCHEDULE OF PRINCIPAL PROPERTIES

	Address	Intended use	Stage of completion	Expected date of completion	Gross site area (sq.m.)	Gross floor area (sq.m.)
1	**Major properties under development**					
	Japan					
	328-1 Aza Iwaobetsu, Kutchan-cho, Abuta-gun, Hokkaido, Japan	Commercial and residential	Design phase	N/A	788,510	619,705

	Address	Gross site area (sq.m.)	Category of the lease*
2	**Major properties held for development**		
	Thailand		
	Moo 3 & 9, Thai Muang Subdistrict, Thai Muang District Phang-nga, 82120 Thailand	1,720,863	Long

	Address	Gross site areas (sq.m.)	Gross floor areas (sq.m.)	Use	Category of the lease*	Percentage held by the Group
3	**Major properties held for investment**					
	The People's Republic of China **Pacific Century Place**					
	No.2A Gong Ti Bei Lu, Chaoyang District, Beijing, the People's Republic of China	27,028				
	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

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Li Tzar Kai, Richard *(Chairman)*
Lee Chi Hong, Robert
(Deputy Chairman and Chief Executive Officer)
Lam Yu Yee
(Deputy Chief Executive Officer and Chief Financial Officer)
James Chan
Gan Kim See, Wendy

Independent Non-Executive Directors

Cheung Kin Piu, Valiant
Prof Wong Yue Chim, Richard, SBS, JP
Dr Allan Zeman, GBM, GBS, JP

COMPANY SECRETARY

Cheng Wan Seung, Ella

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