

**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Pacific Century Premium Developments Limited (the “Company”), you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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Pacific Century  
Premium Developments  
盈科大衍地產發展

**Pacific Century Premium Developments Limited**

**盈科大衍地產發展有限公司\***

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 432)

**VERY SUBSTANTIAL DISPOSAL**

**DISPOSAL OF PROPERTY**

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A notice convening the special general meeting of the Company to be held at the Function Room, IT Street, Level 3, Cyberport 3, 100 Cyberport Road, Hong Kong, on 17 January 2005 at 11:00 a.m. is set out on pages 80 to 81 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and deposit it with the branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 46th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as possible and in any event, not less than 48 hours before the time appointed for holding the special general meeting (or any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting (or any adjournment thereof) should you so desire.

\* For identification only

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## DEFINITIONS

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*In this circular, the following expressions have the following meanings, unless the context otherwise requires:*

|                            |                                                                                                                                                                                                                                                    |
|----------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Agent”                    | Pacific Century Paramount Real Estate Company Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company;                                                                                                           |
| “April 2004 Circular”      | the circular of the Company (then known as Dong Fang Gas Holdings Limited) dated 2 April 2004;                                                                                                                                                     |
| “Asian Motion”             | Asian Motion Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of PCCW, being the beneficial owner of approximately 51.07% of the issued share capital of the Company as at the Latest Practicable Date; |
| “associate”                | has the meaning ascribed to it in the Listing Rules;                                                                                                                                                                                               |
| “Authorised Person”        | has the meaning ascribed to it in the Buildings Ordinance (Cap. 123 of the Laws of Hong Kong);                                                                                                                                                     |
| “Board”                    | the board of directors of the Company;                                                                                                                                                                                                             |
| “Bye-laws”                 | the current Bye-laws of the Company;                                                                                                                                                                                                               |
| “Company”                  | Pacific Century Premium Developments Limited, a company incorporated in Bermuda and whose shares are listed on the Main Board of the Stock Exchange;                                                                                               |
| “Completion”               | completion of the Disposal in accordance with the terms of the S&P Agreement;                                                                                                                                                                      |
| “Conditions”               | the conditions precedent set out in paragraphs (i) to (iv) under the sub-section headed “The sale and purchase and conditions precedent” under the section headed “Provisional Agreement”;                                                         |
| “Deed of Appointment”      | the deed of appointment of leasing agent and manager to be entered into between the Purchaser and the Agent on Completion, an agreed form of which is annexed to the S&P Agreement;                                                                |
| “Deed of Rental Guarantee” | the deed of guarantee to be entered into between the Vendor, the Rental Guarantor and the Purchaser on Completion, an agreed form of which is annexed to the S&P Agreement;                                                                        |
| “Director(s)”              | the director(s) of the Company;                                                                                                                                                                                                                    |

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## DEFINITIONS

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|---------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Disposal”                | the sale of the Property by the Vendor to the Purchaser pursuant to the S&P Agreement;                                                                                                                                                                                                                                          |
| “Group”                   | the Company and its subsidiaries;                                                                                                                                                                                                                                                                                               |
| “HK\$”                    | Hong Kong dollars, the lawful currency of Hong Kong;                                                                                                                                                                                                                                                                            |
| “Hong Kong”               | Hong Kong Special Administrative Region of the PRC;                                                                                                                                                                                                                                                                             |
| “Independent Third Party” | to the best of the knowledge, information and belief of the Directors, after making reasonable enquiries, an independent third party not connected with the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or their respective associates as defined under the Listing Rules; |
| “Land”                    | all that portion of the Remaining Portion of Quarry Bay Marine Lot No. 1 as shown coloured Red on Plan 1 annexed to the Lease;                                                                                                                                                                                                  |
| “Latest Practicable Date” | 21 December 2004, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information in this circular;                                                                                                                                                                |
| “Lease”                   | the Lease dated 13 December 2000 and registered in the Land Registry by Memorial No. 8276622 as rectified by a Deed of Rectification and Confirmation dated 12 March 2001 and registered in the Land Registry by Memorial No. 8340656;                                                                                          |
| “Listing Rules”           | the Rules Governing the Listing of Securities on the Stock Exchange;                                                                                                                                                                                                                                                            |
| “Monance”                 | Monance Limited, a company incorporated in Hong Kong and indirectly owned as to 98% by the Company and as to 2% by PCCW;                                                                                                                                                                                                        |
| “PCCW”                    | PCCW Limited, a company incorporated in Hong Kong whose shares are listed on the Main Board of the Stock Exchange, and which, through Asian Motion, holds approximately 51.07% of the issued share capital of the Company as at the Latest Practicable Date;                                                                    |
| “PCCW-HKT”                | PCCW-HKT Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of PCCW;                                                                                                                                                                                                                                    |
| “PRC”                     | the People’s Republic of China;                                                                                                                                                                                                                                                                                                 |

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## DEFINITIONS

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|-------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Pre-emption Right”     | the right of TaiKoo Place Holdings to purchase the Property pursuant to the terms of the Lease, as summarised in the section headed “Pre-emption Right of TaiKoo Place Holdings”;                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| “Premises”              | all those following portions of the building known as Dorset House (which comprises a 4 level basement car park, a podium and 2 contiguous tower blocks above the podium) (the “Building”) erected on Portions of Section S and the Remaining Portion of Quarry Bay Marine Lot No.1: (1) all those portions of the Building now known as PCCW Tower (formerly known at the date of the Lease as Hongkong Telecom Tower (Tower A)) as shown coloured Yellow on Plans 2 to 51 annexed to the Lease; and (2) all those loading and unloading bays on the Ground Floor of the Building as shown coloured Yellow hatched Black on Plan 6 annexed to the Lease; and (3) all those car parking spaces on Basement Levels 1 to 4 of the Building as shown coloured Yellow hatched Black on Plans 2 to 5 annexed to the Lease ; |
| “Property”              | the Land and the Premises held for the residue of the term created under the Lease;                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| “Provisional Agreement” | the agreement in relation to the Disposal as constituted by an offer letter dated 19 November 2004 issued by the Purchaser Controller and the Purchaser to the Company and the Vendor, and countersigned by the Company and the Vendor on the same date;                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| “Purchaser”             | Richly Leader Limited, a company incorporated in Hong Kong and an Independent Third Party;                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| “Purchaser Controller”  | the ultimate beneficial owner of the Purchaser and an Independent Third Party;                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| “Remaining Group”       | the Group immediately after the Completion;                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| “Rental Guarantor”      | Ipswich Holdings Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company;                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| “S&P Agreement”         | the formal sale and purchase agreement dated 21 December 2004 entered into between the Vendor and the Purchaser in relation to the Disposal;                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| “SFO”                   | the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong);                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |

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## DEFINITIONS

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|---------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “SGM”                     | the special general meeting of the Company to be held to, inter alia, approve the Disposal to be held at the Function Room, IT Street, Level 3, Cyberport 3, 100 Cyberport Road, Hong Kong, on 17 January 2005 at 11:00 a.m.; |
| “Share(s)”                | ordinary share(s) of HK\$0.10 each in the capital of the Company;                                                                                                                                                             |
| “Shareholder(s)”          | holder(s) of Share(s);                                                                                                                                                                                                        |
| “Stock Exchange”          | The Stock Exchange of Hong Kong Limited;                                                                                                                                                                                      |
| “substantial shareholder” | has the meaning ascribed to it in the Listing Rules;                                                                                                                                                                          |
| “TaiKoo Place Holdings”   | TaiKoo Place Holdings Limited, a company incorporated in Hong Kong and an Independent Third Party;                                                                                                                            |
| “US\$”                    | United States dollars, the lawful currency of the United States of America;                                                                                                                                                   |
| “Vendor”                  | Partner Link Investments Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of the Company, the principal activity of which is property investment;                        |
| “sq. ft.”                 | square feet;                                                                                                                                                                                                                  |
| “%”                       | per cent.                                                                                                                                                                                                                     |

*Conversion of US\$ to HK\$ is based on the exchange rate of US\$1.00 = HK\$7.80.*



Pacific Century  
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盈科大衍地產發展

**Pacific Century Premium Developments Limited**

**盈科大衍地產發展有限公司\***

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 432)

*Executive Directors:*

Mr. Li Tzar Kai, Richard (*Chairman*)  
Mr. Yuen Tin Fan, Francis (*Deputy Chairman*)  
Mr. Lee Chi Hong, Robert (*Chief Executive Officer*)  
Mr. Alexander Anthony Arena  
Mr. Hubert Chak

*Registered Office:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Non-executive Director:*

Dr. Allan Zeman, GBS, JP

*Principal place of business  
in Hong Kong:*

Units 701-705, Level 7  
Cyberport 3  
100 Cyberport Road  
Hong Kong

*Independent Non-executive Directors:*

Mr. Ronald James Blake, OBE, JP  
Mr. Cheung Kin Piu, Valiant  
Mr. Tsang Link Carl, Brian  
Prof. Wong Yue Chim, Richard, SBS, JP

30 December 2004

*To the Shareholders*

Dear Sir or Madam,

**VERY SUBSTANTIAL DISPOSAL  
DISPOSAL OF PROPERTY**

**INTRODUCTION**

On 22 November 2004, the Company and PCCW jointly announced that the Company and the Vendor, an indirect wholly-owned subsidiary of the Company, entered into the Provisional Agreement on 19 November 2004 with the Purchaser Controller and the Purchaser pursuant to which the Vendor and the Purchaser conditionally agreed to enter into a formal agreement for the sale and purchase of the Property for a consideration of HK\$2,808,000,000. Pursuant to the Provisional Agreement, the Vendor and the Purchaser entered into the S&P Agreement on 21 December 2004.

\* For identification only

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## LETTER FROM THE BOARD

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The Disposal constitutes a very substantial disposal for the Company under Chapter 14 of the Listing Rules. Pursuant to Rule 14.49 of the Listing Rules, the Disposal is subject to approval by the Shareholders at the SGM. As at the Latest Practicable Date, as each of the Purchaser, the Purchaser Controller and TaiKoo Place Holdings is an Independent Third Party and no Shareholder has a material interest, other than through their interest in the Company, in the Disposal, no Shareholder is required to abstain from voting in respect of the proposed resolution to approve the Disposal at the SGM.

The purpose of this circular is to provide you with details of the Disposal and to give you notice of the SGM.

### PROVISIONAL AGREEMENT

#### Date

19 November 2004

#### Parties

- (i) the Company
- (ii) the Vendor
- (iii) the Purchaser Controller
- (iv) the Purchaser

The Vendor is an indirect wholly-owned subsidiary of the Company.

The Company has been informed by the Purchaser that, as at the Latest Practicable Date, its ultimate beneficial owner is the Purchaser Controller, and that the Purchaser Controller is a closed-end property fund for institutional investors which principally invests in real estate in various countries in Asia, managed by Pramerica Real Estate Investors (Asia) Pte. Ltd.. The Purchaser, the Purchaser Controller and the ultimate beneficial owner of the Purchaser Controller are Independent Third Parties.

To the best of the knowledge, information and belief of the Directors, after making all reasonable enquiries, neither PCCW, the controlling Shareholder, nor any of the Directors have any material interest in the Disposal other than through their interest in the Company.

On 22 December 2004, the Vendor was informed by the Purchaser that the Purchaser Controller had entered into an agreement with TaiKoo Place Holdings pursuant to which TaiKoo Place Holdings (through a subsidiary) would subscribe for 20% of the share capital in the Purchaser prior to the completion of the Disposal, and that as at completion of the Disposal, the Purchaser Controller would hold not less than 50% of the issued share capital in the Purchaser.

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## LETTER FROM THE BOARD

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### **The sale and purchase and conditions precedent**

Under the Provisional Agreement, the Vendor and the Purchaser were obliged to enter into the S&P Agreement within 2 business days of the satisfaction or waiver (in the case of condition (ii) below, by the Vendor and conditions (iii) and (iv) below, by the Purchaser) of all the conditions set out below provided that the signing date would not be earlier than 17 December 2004:

- (i) TaiKoo Place Holdings not exercising the Pre-emption Right;
- (ii) PCCW-HKT being satisfied that it, Monance (being the original lessee under the Lease) and the Vendor will not be under any obligations or liabilities under the Lease and any ancillary or related documents in respect of the Property as from Completion;
- (iii) the Purchaser being satisfied that the Vendor's title to the Property is good and free from encumbrances; and
- (iv) the receipt by the Purchaser of an undertaking from Asian Motion agreeing to approve the sale of the Property on the terms set out in the Provisional Agreement or, as the case may be, to vote in favour of such sale at a general meeting (if required) of the Company if Asian Motion is permitted to approve or vote on such sale under the Listing Rules.

As the last of the Conditions to be satisfied was fulfilled on 21 December 2004 and on 15 December 2004, the Purchaser informed the Vendor that it would not exercise the option described in the section below headed "Option", pursuant to the terms of the Provisional Agreement, the Vendor and the Purchaser entered into the S&P Agreement on 21 December 2004.

Completion of the S&P Agreement will further be conditional upon compliance by the Company with the applicable requirements of the Listing Rules, including the approval thereof by Shareholders (if required) at a general meeting. Please also refer to the section headed "Completion" below.

### **The Property**

The Property comprises PCCW Tower, a 43-storey office tower at No. 979 King's Road, Quarry Bay, Hong Kong, together with certain loading and unloading bays on the ground floor and certain car parks on basement levels 1 to 4 of the office and commercial complex of which PCCW Tower forms part. The gross floor area of the Property is approximately 620,147 sq. ft..

Currently, approximately 99% of the office space in the Property and approximately 50% of the carparks are let. Approximately 35% of the office space and 37% of the carparks are currently leased to PCCW Services Limited, a direct wholly-owned subsidiary of PCCW.

Under the Provisional Agreement, the Property is sold subject to lettings and tenancies existing as at Completion. As valued by CB Richard Ellis Limited, valuation of the property amounted to HK\$2,652,000,000 as at 31 December 2003 and HK\$2,800,000,000 as at 30 November 2004. Further information of the Property is discussed in the section headed "Financial effects of the Disposal" below as well as in appendices I and IV to this circular.

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## LETTER FROM THE BOARD

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### Consideration

The total consideration for the Property is HK\$2,808,000,000 paid or payable in cash by the Purchaser in the following manner:

- (i) a deposit of HK\$280,800,000 was paid upon the signing of the S&P Agreement; and
- (ii) the balance of the consideration of HK\$2,527,200,000 will be payable upon Completion.

An initial deposit of US\$18,000,000 (equivalent to approximately HK\$140,400,000) was paid by the Purchaser upon the signing of the Provisional Agreement. Pursuant to the Provisional Agreement, such initial deposit was converted into Hong Kong dollars and applied towards payment of the deposit referred to in (i) above upon the signing of the S&P Agreement.

The total consideration was determined after arm's length negotiations between the parties to the Provisional Agreement taking into account the prevailing market conditions in Hong Kong, as well as a valuation of the Property by CB Richard Ellis Limited as at 31 December 2003 (as referred to in the section headed "Financial effects of the Disposal" below). The Directors consider that the terms of the Disposal (including the terms of the Deed of Rental Guarantee and the Deed of Appointment) are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

### Force majeure

The S&P Agreement provides that if, between the date of the S&P Agreement and Completion, the Property or any part thereof is damaged or destroyed due to the occurrence of certain specified events (including force majeure), then:

- (a) if the total costs for reinstating the damaged or destroyed portion of the Property as determined by independent quantity surveyors (the "Reinstatement Costs") are less than HK\$200,000,000, the Purchaser will be obliged to complete the purchase of the Property as originally scheduled; and
- (b) if the Reinstatement Costs are HK\$200,000,000 or more, then the Purchaser will have the option to either (i) proceed to completion as originally scheduled, or (ii) postpone completion until after the damaged or destroyed portion has been reinstated to its original condition by the Vendor at its cost.

Such postponed completion will take place on a date specified by notice from the Vendor provided that: (1) the reinstatement works are completed on or before 31 December 2005 and the Vendor produces as evidence a copy of a certificate of fitness for occupation from an Authorised Person appointed by the Vendor for such works; (2) the specified date must not be less than 30 days from the date of the notice; and (3) if the reinstatement is not completed by 31 December 2005, the Purchaser will have the right to terminate the S&P Agreement and the Vendor will refund to the Purchaser all monies paid by it under the S&P Agreement.

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## LETTER FROM THE BOARD

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### Option

Under the Provisional Agreement, the Purchaser had the option, exercisable on or before 15 December 2004, instead of entering into the S&P Agreement, to purchase the entire issued share capital of the Vendor at net asset value and all loans owing to the Group by the Vendor at book value but otherwise on substantially the same commercial terms as those in the S&P Agreement and subject to the Conditions and other terms as provided in the Provisional Agreement. On 15 December 2004, the Purchaser informed the Vendor that it would not exercise the option.

### COMPLETION

#### Condition for Completion

Completion is conditional upon the compliance by the Company with the requirements of the Stock Exchange and the Listing Rules in relation to the S&P Agreement including the approval by Shareholders at the SGM in accordance with the Listing Rules.

In the event that the above condition precedent is not fulfilled on or before 31 January 2005 or such later date as the parties may agree, the S&P Agreement will immediately terminate and the Vendor will return to the Purchaser all deposits paid together with interest thereon within seven business days following the termination of the S&P Agreement.

#### Completion date

Upon fulfillment of the condition precedent, Completion will take place on 3 March 2005 or an earlier date notified by the Vendor to the Purchaser by written notice provided that (a) such date is a business day not less than 14 days from the date of the notice, and (b) such notice may not be served earlier than 25 January 2005. The earliest date for Completion is therefore 8 February 2005.

### DEED OF RENTAL GUARANTEE

Under the S&P Agreement, on Completion, the Vendor, the Rental Guarantor and the Purchaser will enter into the Deed of Rental Guarantee pursuant to which the Vendor will pay the sum of HK\$13,338,000 to the Purchaser by way of guaranteed net monthly rental on the date of Completion and thereafter on the first business day of every month during the period of 5 years commencing from the date following Completion (the “Guaranteed Period”). This guaranteed rental is payable irrespective of the actual amount of income received from tenants and licensees and the costs and expenses required to be expended by the Agent and the Vendor in respect of the Property. In return the Vendor will be entitled to receive the actual rents and licence fees paid by the tenants and licensees. If during the Guaranteed Period, the actual net monthly rental received is higher than the guaranteed rental, the Vendor will be entitled to the excess. The guaranteed rental was determined after arm’s length negotiations between the parties to the Provisional Agreement, taking into account a yield requested by the Purchaser.

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## LETTER FROM THE BOARD

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The form of the Deed of Rental Guarantee provides that during the Guaranteed Period all expenses in respect of the Property will be borne by the Vendor and/or the Agent except for any expenditure of a capital or non-recurring nature, any expenditure of works required by any government department or other competent authority, certain taxes levied on the guaranteed rental and any insurance premium for which the Purchaser will be responsible.

The Purchaser will be obliged to take out business interruption insurance in respect of the Property for a disruption period of at least 12 months for an agreed amount. If during the Guaranteed Period any part of the Property is damaged or destroyed by certain specified force majeure events so that (i) under the terms of the letting agreements, the rent due from tenants or licensees is suspended or (ii) any part of the Property is incapable of being let out, the Purchaser will make a claim under the insurance policy and pay the same over to the Vendor. If the Vendor does not receive the insurance proceeds for the loss of income for a particular month within the next 4 months, the Vendor may deduct an equivalent amount from the guaranteed monthly rental next due provided that the insurance policy has not been violated or rendered invalid, and payment thereunder has not been refused, as a result of any act or default of the Agent.

The Rental Guarantor will guarantee the performance by the Vendor of its obligations under the Deed of Rental Guarantee.

The form of the Deed of Rental Guarantee provides that it may be terminated during the Guaranteed Period in the event of: (i) termination by the Purchaser of the appointment of the Agent under the Deed of Appointment; (ii) the Purchaser Controller ceasing to be the ultimate beneficial owner of at least 50% of the entire issued share capital of the Purchaser; or (iii) the Purchaser ceasing to be the legal and/or beneficial owner of the Property. The Purchaser may not assign its benefit or obligations under the Deed of Rental Guarantee other than in favour of the mortgagees from time to time of the Property and such mortgagees may also assign such rights when it exercises the power of sale to the subsequent purchaser but not further or otherwise.

### **DEED OF APPOINTMENT**

Under the S&P Agreement and the agreed form of the Deed of Rental Guarantee, on Completion the Purchaser and the Agent will enter into a Deed of Appointment whereby the Agent will be appointed (i) the Purchaser's sole and exclusive leasing agent to deal with all leasing and tenancy matters of the Property; and (ii) the Purchaser's sole manager of the Property. The Agent will bear all costs and expenses incurred in the performance of its services under the Deed of Appointment (save for those of a capital or non-recurring nature for which the Purchaser will be responsible) and is not entitled to any fee or remuneration. Each of the appointments will be for a term of 5 years from the date of the Deed of Appointment, provided that the Deed of Appointment may be earlier terminated under certain specified circumstances including the early termination of the Deed of Rental Guarantee.

### **PRE-EMPTION RIGHT OF TAIKOO PLACE HOLDINGS**

Under the terms of the Lease, if the Vendor as the lessee receives a bona fide offer to purchase the whole of the Property, the Vendor is required to serve notice on TaiKoo Place Holdings of its intention to sell the Property, specifying the terms of the proposed Disposal (the "Disposal Notice").

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## LETTER FROM THE BOARD

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TaiKoo Place Holdings will then have the right to purchase the Property within 30 days (the “Pre-emption Period”) on terms set out in the Disposal Notice. On 19 November 2004, the Vendor served the Disposal Notice on TaiKoo Place Holdings enclosing a copy of the Provisional Agreement. Accordingly, if TaiKoo Place Holdings exercises the Pre-emption Right, the Vendor will be obliged to sell and TaiKoo Place Holdings will be obliged to purchase the Property on those terms.

Under the Lease, if no written reply is given on the expiry of the Pre-emption Period or if TaiKoo Place Holdings replies that it does not wish to purchase the whole of the Property on terms set out in the Disposal Notice, the Vendor may within 2 months from the date of expiry of the Pre-emption Period or, as the case may be, the date of TaiKoo Place Holdings’ reply, sell the whole of the Property to the Purchaser on terms no more favourable to the Purchaser than the terms set out in the Disposal Notice. The Group has received a notice from TaiKoo Place Holdings on 18 December 2004 indicating that they would not exercise the Pre-emption Right to purchase the Property.

### INFORMATION ON THE COMPANY AND THE GROUP

On 10 May 2004, the Company acquired various property interests of PCCW. The details of the transaction are set out in the April 2004 Circular. The Group is now principally engaged in the development of property and infrastructure projects in Asia and the investment in premium-grade buildings in Asia or substantial parts thereof.

According to the Company’s interim report for the nine months ended 30 September 2004, the Group had a consolidated turnover of approximately HK\$3,250 million for the nine months ended 30 September 2004, representing an increase of 33.4% compared with a consolidated turnover of approximately HK\$2,436 million for the nine months ended 30 September 2003. The increment in the Group’s consolidated turnover reflected the strong sales of Bel-Air residential units during the period. The turnover on property development was approximately HK\$2,933 million for the nine months ended 30 September 2004, representing approximately 90.3% of the Group’s turnover for the period.

The Group recorded a consolidated net profit of approximately HK\$288 million for the nine months ended 30 September 2004, compared with the Group’s consolidated net loss of approximately HK\$36 million for the nine months ended 30 September 2003. The increase in net profit of approximately HK\$324 million reflected a higher gross profit margin attributable to higher selling prices of Bel-Air residential units sold in the nine month period up to September 2004.

Most of the long-term borrowings were from PCCW as detailed in the April 2004 Circular. The Cyberport Loan (as defined in the April 2004 Circular) of approximately HK\$3,907 million is interest free and is expected to be repaid out of the proceeds of sale of the Bel-Air development. The convertible note (tranche A) with a face value of HK\$1,170 million is interest free and convertible note (tranche B) with a face value of HK\$2,420 million carries a fixed interest rate of one percent per annum. As most of the loans are regarded as shareholder’s loans, the gearing ratio is not provided. As at 30 November 2004, the Group’s borrowings amounted to approximately HK\$ 7,524 million and for details of such borrowings, please refer to the section headed “Indebtedness” on page 64 in Appendix III to this circular. As most of the borrowings are either interest free or have a fixed interest rate, the Group is not expected to be exposed to interest rate fluctuation.

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## LETTER FROM THE BOARD

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The Group has an unsecured banking facility of HK\$20 million and the unused portion of the facility was approximately HK\$19 million as at 30 November 2004.

Most of the Group's cash reserves have been placed in short-term Hong Kong dollar and Renminbi deposits with major banks in Hong Kong and the PRC. The Group's income is mainly denominated in Hong Kong dollars and Renminbi while the Group's borrowings are denominated in Hong Kong dollars. Given the exchange rates between these currencies are fairly stable, the Group has no significant exposure to foreign exchange fluctuation and has not adopted any material hedging measures. The Group's cash and cash equivalent balances as at 30 November 2004 amounted to approximately HK\$741 million.

On the basis that the turnover of the Property for the nine months ended 30 September 2004 was HK\$114 million, which represented approximately 3.5% of the Group's turnover, the Directors are of the view that following Completion, the Group will continue to carry out sufficient level of business pursuant to Rule 13.24 of the Listing Rules.

### TRADING PROSPECTS OF THE GROUP

As mentioned in the September 2004 interim report, the Group remains positive on the Hong Kong property market supported by economic improvement, robust demand and limited supply of high-end residential developments. The Group is committed to growing its core businesses with a focus on developing premium properties. The Group is also looking at different opportunities in the real estate sector and is actively considering proposals to redevelop a number of PCCW-owned telephone exchange buildings.

### REASONS FOR AND BENEFITS OF THE DISPOSAL

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

As the Group continues to consider different business and investment opportunities, the Company is exploring various ways to satisfy the anticipated funding requirements of the Group. Given the current favourable market conditions, the Directors consider that the Disposal represents a good opportunity for the Group to realize the Property at a reasonable price and improve the overall financing flexibility of the Group.

For pro forma financial information on the Group's remaining business after the Disposal, please refer to Appendix II to this circular.

### FINANCIAL EFFECTS OF THE DISPOSAL

The Property was acquired by the Group on 10 May 2004 as part of the Sale Shares and the Sale Assets (each as defined in the April 2004 Circular) as jointly announced on 5 March 2004 by PCCW and the Company (then known as Dong Fang Gas Holdings Limited), at an aggregate consideration of HK\$6,557 million, which was satisfied partly by the issue and allotment of new shares in the Company and partly by the issue of convertible notes by the Company.

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## LETTER FROM THE BOARD

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The terms of the Provisional Agreement including the consideration were determined by the parties on an arm's length basis. The consideration for the sale of the Property is HK\$2,808 million which is close to the valuation of HK\$2,800 million as valued by CB Richard Ellis Limited as at 30 November 2004 and represents a premium of approximately 21.6% over the net book value of the Property of approximately HK\$2,309 million as at 30 September 2004 according to the Company's latest unaudited interim financial statements.

The estimated gain before taxation on the Disposal to the Group would amount to approximately HK\$607 million after taking into account the surplus on revaluation reserve of approximately HK\$140 million as at 30 September 2004. The estimated gain is calculated based on the accounting principles generally accepted and effective in Hong Kong as at the date of this circular and includes estimated expenses incurred for the Disposal, including but not limited to agency commission and legal and other professional fees of approximately HK\$31 million.

In December 2004, the Hong Kong Institute of Certified Public Accountants ("HKICPA") issued Hong Kong Accounting Standard ("HKAS") 40 "Investment Property" which is effective for annual periods beginning on or after 1 January 2005. Accordingly, at the date of completion of the Disposal, which is expected to be 3 March 2005, HKAS 40 should have come into effect and would be applicable to the Company.

Under the transitional provisions of HKAS 40, any amount held in revaluation reserve for investment property recorded at the date of adoption of HKAS 40 will be reclassified to retained earnings on that date as an adjustment to the opening balance of retained earnings.

In addition, upon first adoption of HKAS 40, certain of the floors within the property that are currently leased to a fellow subsidiary will be reclassified as investment property. On the basis that the Company will use the fair value model under HKAS 40, the carrying value of these floors will be adjusted to fair value on 1 January 2005 and the Company shall report the effect of applying the new standard as an adjustment to the opening balance of retained earnings as at 1 January 2005.

Therefore, the adoption of HKAS 40 effectively adjusts any revaluation reserves brought forward on 1 January 2005 and any revaluation adjustment on the carrying value of fixed assets to fair value on 1 January 2005, to opening retained earnings. As such, the Property will be carried at market value at the date of Disposal in the consolidated balance sheet of the Group and the aforesaid gain of HK\$607 million calculated based on the accounting principle currently in effect will effectively be adjusted to opening retained earnings. As a result, the Directors expect that the gain on the Disposal at completion of the Disposal to the Group will be close to nil (after taking into account the expenses incurred for the Disposal, including but not limited to agency commission and legal and other professional fees of approximately HK\$31 million). The actual gain or loss will be determined on Completion based on applicable accounting principles effective at that time.

On the basis of the combined income statements prepared for the Property Group (as such term is defined in the April 2004 Circular) as set out in the April 2004 Circular for each of the three years ended 31 December 2001, 2002 and 2003 respectively, the net profit before taxation and extraordinary items attributable to the Property for each of the three years ended 31 December 2001, 2002 and 2003

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were approximately HK\$92 million, HK\$192 million and HK\$44 million respectively; and the net profit after taxation and extraordinary items attributable to the Property for each of the three years ended 31 December 2001, 2002 and 2003 were approximately HK\$51 million, HK\$177 million and HK\$40 million respectively.

The Unaudited Financial Information on the Property included in Appendix I to this circular has been prepared on a “stand-alone” basis. On this basis, any changes in the value of the Property were not charged to the income statement of the Property but were treated as movements in the revaluation reserve relating to the Property unless the reserve is insufficient to cover any deficits in which case the excess of the deficit over the revaluation reserve would be charged to the income statement of the Property. Revaluation surpluses relating to the Property arising in subsequent periods may only be recorded in the income statement of the Property to the extent of any deficits previously charged to that statement. In preparing the consolidated financial statements of the Group, revaluation surpluses or deficits are accounted for on a portfolio basis so that revaluation deficits relating to the Property are not charged to the income statement of the Group until total revaluation reserves relating to the Group’s portfolio of investment properties were insufficient to cover the deficit. As a result, the net amount of revaluation deficit/surplus charged/credited to the income statement of the Property Group (as such term is defined in the April 2004 Circular) were HK\$105 million (a deficit), HK\$64 million (a surplus) and HK\$41 million (a surplus) respectively for each of the three years ended 31 December 2001, 2002 and 2003 while the revaluation deficit/surplus charged/credited to the income statement of the Property were HK\$223 million (a deficit), HK\$64 million (a surplus) and HK\$160 million (a surplus) as set out in Appendix I to this circular.

### USE OF PROCEEDS FROM THE DISPOSAL

The Company will use the net proceeds from the Disposal, as general working capital and to improve the overall financing flexibility of the Group. The Company does not at present have any specific investment projects which require the use of the proceeds.

### SGM

The Disposal constitutes a very substantial disposal for the Company under Chapter 14 of the Listing Rules. Pursuant to Rule 14.49 of the Listing Rules, the Disposal is subject to approval by Shareholders at the SGM. As at the Latest Practicable Date, as each of the Purchaser, the Purchaser Controller and TaiKoo Place Holdings is an Independent Third Party and no Shareholder has a material interest, other than through their interest in the Company, in the Disposal, no Shareholder is required to abstain from voting in respect of the proposed resolution to approve the Disposal at the SGM.

Set out on pages 80 to 81 of this circular is a notice convening the SGM to be held at the Function Room, IT Street, Level 3, Cyberport 3, 100 Cyberport Road, Hong Kong, on 17 January 2005 at 11:00 a.m. for the purpose of considering and, if thought fit, approving the Disposal.

A form of proxy is enclosed. Whether or not you intend to attend and vote at the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and deposit it with the Company’s branch share registrar, Computershare Hong Kong Investor Services Limited, at 46th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, as

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## LETTER FROM THE BOARD

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soon as possible and in any event so as to arrive not less than 48 hours before the time appointed for holding the SGM (or any adjournment thereof). Completion and return of a form of proxy will not preclude you from attending and voting in person at the SGM (or any adjournment thereof) should you so desire.

Asian Motion, which beneficially holds approximately 51.07% of the issued share capital of the Company as at the Latest Practicable Date, has undertaken to the Purchaser to vote in favour of the Disposal (in fulfilment of one of the Conditions).

### PROCEDURES FOR DEMANDING A POLL

Pursuant to Bye-law 66 of the Bye-laws, a resolution put to the vote of a general meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded by:

- (a) the chairman of such meeting; or
- (b) at least three Shareholders present in person (or in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
- (c) a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or
- (d) a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right.

### RECOMMENDATION

The Directors consider that the terms of the Disposal are fair and reasonable to the Company and in the best interest of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM in respect of the Disposal.

### FURTHER INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,  
For and on behalf of the Board  
**Pacific Century Premium Developments Limited**  
**Lee Chi Hong, Robert**  
*Chief Executive Officer*

**1. UNAUDITED PROFIT AND LOSS STATEMENT OF THE PROPERTY**

The following is the unaudited profit and loss statement for each of the three years ended 31 December 2001, 2002 and 2003 and the nine month period ended 30 September 2004 (“the Relevant Periods”) (“the Unaudited Financial Information”) of the Property.

**(I) BASIS OF PREPARATION**

The Property was held by either Monance Limited (“Monance”) or Partner Link Investments Limited (“Partner Link”) during the period from 1 January 2001 to 30 September 2004. The Unaudited Financial Information, which is based on the audited accounts of Monance and Partner Link, includes the results directly attributable to the Property for each of the three years ended 31 December 2001, 2002 and 2003 and the nine month period ended 30 September 2004. Monance and Partner Link became subsidiaries of the Property Group (as defined in the April 2004 Circular) in a reorganisation which occurred in May 2004 prior to the transfer of the Property Group into the Company by PCCW. The reorganisation was accounted for using merger accounting and the Unaudited Financial Information has been prepared as if Monance and Partner Link had been subsidiaries of the Property Group since 1 January 2001. All intercompany transactions between Monance and Partner Link have been excluded from the Unaudited Financial Information.

(II) UNAUDITED FINANCIAL INFORMATION

The following are the results of the Property for the Relevant Periods prepared on the basis set out in Section (I) above:

|                                                         |      | Year ended       | Year ended  | Year ended  | 1 January   |
|---------------------------------------------------------|------|------------------|-------------|-------------|-------------|
|                                                         |      | 31 December      | 31 December | 31 December | 2004 to     |
|                                                         | Note | 2001             | 2002        | 2003        | 2004        |
|                                                         |      | In HK\$' million |             |             |             |
| Turnover                                                | 2    | 245              | 219         | 159         | 114         |
| Operating expenses                                      |      | (48)             | (58)        | (59)        | (43)        |
| (Deficit)/Surplus on revaluation of investment property | 3    | <u>(223)</u>     | <u>64</u>   | <u>160</u>  | <u>—</u>    |
| (Loss)/Profit from operations                           |      | (26)             | 225         | 260         | 71          |
| Finance costs, net                                      | 4    | <u>—</u>         | <u>(33)</u> | <u>(98)</u> | <u>(64)</u> |
| (Loss)/Profit before taxation                           |      | <u>(26)</u>      | <u>192</u>  | <u>162</u>  | <u>7</u>    |

**(III) NOTES TO THE UNAUDITED FINANCIAL INFORMATION****1. Principal accounting policies**

The Unaudited Financial Information has been prepared under the historical cost convention, as modified by the revaluation of the investment property, and in accordance with Hong Kong Financial Reporting Standards.

The principal accounting policies adopted in the preparation of the Unaudited Financial Information are set out below.

(a) *Investment properties*

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential and for the long term.

Investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value, on the basis of an annual valuation by professionally qualified executives of the Group and by independent valuers at intervals of not more than three years. Changes arising on the revaluation of investment properties are dealt with in the property revaluation reserve unless the following circumstances arise:

- when a deficit arises on revaluation, it will be charged to the income statement, if and to the extent that it exceeds the amount held in the reserve, immediately prior to the revaluation; and
- when a surplus arises on revaluation, it will be credited to the income statement, if and to the extent that a deficit on revaluation, had previously been charged to the income statement.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the property revaluation reserve to the income statement as part of the gain or loss on disposal of the investment property.

No depreciation is provided on investment properties unless the unexpired lease term is 20 years or less, in which case depreciation is provided on their carrying value over the unexpired lease term.

In December 2004, the Hong Kong Institute of Certified Public Accountants (“HKICPA”) issued Hong Kong Accounting Standard (“HKAS”) 40 “Investment Property” which is effective for annual periods beginning on or after 1 January 2005.

Under the transitional provisions of HKAS 40, any amount held in revaluation reserves for investment property recorded at the date of adoption of HKAS 40 will be reclassified to retained earnings on that date as an adjustment to the opening balance of retained earnings.

Upon first adoption of HKAS 40, certain of the floors within the Property that are currently leased to a fellow subsidiary, will be reclassified as investment properties. Under the fair value model of HKAS 40, the carrying value of that portion being reclassified will be adjusted to fair value on 1 January 2005 and the effect of the adjustment will be adjusted to the opening balance of retained earnings as at 1 January 2005.

(b) *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 (i.e. more likely than not) that an outflow of economic benefits 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 amount required. 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 economic benefits 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.

(c) *Revenue recognition*

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

(d) *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 complete.

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

2. **Turnover**

|                                                   | Year ended<br>31 December<br>2001 | Year ended<br>31 December<br>2002 | Year ended<br>31 December<br>2003 | 1 January 2004<br>to 30 September<br>2004 |
|---------------------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-------------------------------------------|
|                                                   | <i>In HK\$' million</i>           |                                   |                                   |                                           |
| Rental from a fellow subsidiary ( <i>note a</i> ) | 127                               | 101                               | 44                                | 37                                        |
| Rental from third parties                         | <u>118</u>                        | <u>118</u>                        | <u>115</u>                        | <u>77</u>                                 |
|                                                   | <u>245</u>                        | <u>219</u>                        | <u>159</u>                        | <u>114</u>                                |

- (a) The percentage of office space and car parks covered by leases to PCCW Services Limited, a direct wholly-owned subsidiary of PCCW and a fellow subsidiary of the Company, are as follows:

|                         | office space | car parks |
|-------------------------|--------------|-----------|
| As at 31 December 2001  | 37%          | 30%       |
| As at 31 December 2002  | 28%          | 22%       |
| As at 31 December 2003  | 29%          | 23%       |
| As at 30 September 2004 | 35%          | 19%       |

### 3. The Property

|                                                           | Investment<br>properties | Leasehold<br>land | Building   | Plant and<br>machinery | Furniture<br>and fittings | Total        |
|-----------------------------------------------------------|--------------------------|-------------------|------------|------------------------|---------------------------|--------------|
|                                                           | <i>In HK\$' million</i>  |                   |            |                        |                           |              |
| Net book value:                                           |                          |                   |            |                        |                           |              |
| At 1 January 2001                                         | 1,941                    | 202               | 116        | 35                     | —                         | 2,294        |
| Transfers                                                 | (240)                    | 132               | 77         | 31                     | —                         | —            |
| Depreciation for the year                                 | —                        | (7)               | (4)        | (7)                    | —                         | (18)         |
| Deficit on revaluation<br>charged to:                     |                          |                   |            |                        |                           |              |
| - income statement                                        | (223)                    | —                 | —          | —                      | —                         | (223)        |
| - property revaluation<br>reserve                         | (61)                     | —                 | —          | —                      | —                         | (61)         |
| At 31 December 2001                                       | <u>1,417</u>             | <u>327</u>        | <u>189</u> | <u>59</u>              | <u>—</u>                  | <u>1,992</u> |
| Transfers                                                 | 111                      | (60)              | (35)       | (16)                   | —                         | —            |
| Depreciation for the year                                 | —                        | (6)               | (6)        | (5)                    | —                         | (17)         |
| Surplus on revaluation<br>credited to income<br>statement | 64                       | —                 | —          | —                      | —                         | 64           |
| At 31 December 2002                                       | <u>1,592</u>             | <u>261</u>        | <u>148</u> | <u>38</u>              | <u>—</u>                  | <u>2,039</u> |
| Additions                                                 | —                        | —                 | —          | —                      | 1                         | 1            |
| Transfers                                                 | (49)                     | 18                | 23         | 8                      | —                         | —            |
| Depreciation for the year                                 | —                        | (7)               | (8)        | (2)                    | —                         | (17)         |
| Surplus on revaluation<br>credited to:                    |                          |                   |            |                        |                           |              |
| - income statement                                        | 160                      | —                 | —          | —                      | —                         | 160          |
| - property revaluation<br>reserve                         | 140                      | —                 | —          | —                      | —                         | 140          |
| At 31 December 2003                                       | <u>1,843</u>             | <u>272</u>        | <u>163</u> | <u>44</u>              | <u>1</u>                  | <u>2,323</u> |

The property is held under a long-term lease in Hong Kong and carried at valuations made by an associate member of the Royal Institution of Chartered Surveyors who was an employee of PCCW, Insignia Brooke (Hong Kong) Limited and CB Richard Ellis Limited, independent valuers on 31 December 2001, 2002 and 2003 respectively on an open market value basis.

#### 4. Finance costs, net

[illegible]

#### (IV) SUBSEQUENT EVENT

On 19 November 2004, the Vendor entered into the Provisional Agreement to sell the Property for a cash consideration of approximately HK\$2,808 million, subject to satisfaction or waiver of certain conditions specified under the Provisional Agreement.

As the last of the Conditions to be satisfied was fulfilled on 21 December 2004 and on 15 December 2004, the Purchaser informed the Vendor that it would not exercise the option described in the section headed “Option” in this circular, pursuant to the terms of the Provisional Agreement, the Vendor and the Purchaser entered into the S&P Agreement on 21 December 2004.

**2. LETTER FROM THE AUDITORS ON THE UNAUDITED FINANCIAL INFORMATION ON THE PROPERTY**

羅兵咸永道會計師事務所

**PricewaterhouseCoopers**  
22/F, Prince's Building  
Central, Hong Kong  
Telephone: (852) 2289 8888  
Facsimile: (852) 2810 9888  
www.pwchk.com

30 December 2004

The Directors  
Pacific Century Premium Developments Limited

Dear Sirs

We report on the financial information, consisting of the profit and loss statement and notes thereto, of the property known as PCCW Tower situated at Taikoo Place, No. 979 King's Road, Quarry Bay, Hong Kong (the "Property") for each of the three years ended 31 December 2001, 2002 and 2003 and the nine month period ended 30 September 2004 (the "Relevant Periods") (the "Unaudited Financial Information"), set out in Appendix I of the circular of Pacific Century Premium Developments Limited (the "Company") entitled "Very Substantial Disposal — Disposal of Property" dated 30 December 2004 (the "Circular"). The Unaudited Financial Information was prepared by the directors of the Company on the basis set out in Section 1.(I) of Appendix I of the Circular.

**Respective responsibilities of directors and auditors**

You are responsible for ensuring that the Unaudited Financial Information has been properly compiled and derived from the underlying books and records in accordance with paragraph 14.68(2)(b)(i) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

It is our responsibility, based on the information and documentation provided to us by the Company, to report on whether the Unaudited Financial Information has been properly compiled and derived from the underlying books and records in accordance with the above requirements based on the results of the procedures performed by us.

**Basis of conclusion**

We conducted our engagement in accordance with Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants. The engagement comprised principally of making enquiries of management and applying certain other procedures to the Unaudited Financial Information including agreeing the Unaudited Financial Information to the underlying books and records.

Our procedures exclude audit procedures such as tests of controls and verification of assets, liabilities and transactions. They are substantially less in scope than an audit and therefore provide a lower level of assurance than an audit. Accordingly we do not express any opinion on the truth and fairness of the Unaudited Financial Information.

**Conclusion**

Based on the foregoing, in our opinion, the Unaudited Financial Information has been properly compiled and derived, in all material respects, from the underlying books and records for the Relevant Periods.

Yours faithfully,  
**PricewaterhouseCoopers**  
*Certified Public Accountants*  
Hong Kong

3. VALUATION OF THE PROPERTY

The following valuations are used for the valuation of the Property as at the end of the year or at the date as indicated:

As at:

|                                                                              |                   |
|------------------------------------------------------------------------------|-------------------|
| 31 December 2001                                                             | HK\$2,374 million |
| 31 December 2002                                                             | HK\$2,250 million |
| 31 December 2003                                                             | HK\$2,652 million |
| As at 30 November 2004 (as set out in the Property Valuation in Appendix IV) | HK\$2,800 million |

## UNAUDITED PRO FORMA FINANCIAL INFORMATION

## I. Unaudited pro forma consolidated net assets statement

The following is the unaudited pro forma consolidated net assets statement of the Group assuming that the Property had been disposed of as at 30 September 2004. The unaudited pro forma consolidated net assets statement was prepared based on the unaudited condensed consolidated balance sheet of the Group as at 30 September 2004 as set out in the Interim Report of the Company.

This unaudited pro forma consolidated net assets statement has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Group at any future date.

|                                                  | <b>30 September<br/>2004</b><br><i>In HK\$'million</i> | <i>Note(s)</i> | <b>Pro forma<br/>adjustments</b><br><i>In HK\$'million</i> | <b>Adjusted<br/>balances</b> |
|--------------------------------------------------|--------------------------------------------------------|----------------|------------------------------------------------------------|------------------------------|
| <b>Non-current assets</b>                        |                                                        |                |                                                            |                              |
| Fixed assets                                     | 6,435                                                  | 1              | (2,309)                                                    | 4,126                        |
| Properties under development                     | 4,848                                                  |                |                                                            | 4,848                        |
| Goodwill                                         | 58                                                     |                |                                                            | 58                           |
| Other non-current assets                         | <u>11</u>                                              | 2              | (3)                                                        | <u>8</u>                     |
|                                                  | <u>11,352</u>                                          |                |                                                            | <u>9,040</u>                 |
| <b>Current assets</b>                            |                                                        |                |                                                            |                              |
| Properties under development                     | 1,092                                                  |                |                                                            | 1,092                        |
| Sales proceeds held in stakeholders' accounts    | 2,430                                                  |                |                                                            | 2,430                        |
| Restricted cash                                  | 956                                                    |                |                                                            | 956                          |
| Investment in unconsolidated subsidiaries        | 80                                                     |                |                                                            | 80                           |
| Accounts receivable                              | 74                                                     |                |                                                            | 74                           |
| Prepayments, deposits and other current assets   | 81                                                     | 3              | (5)                                                        | 76                           |
| Gross amount due from customer for contract work | 2                                                      |                |                                                            | 2                            |
| Amount due from fellow subsidiaries              | 23                                                     |                |                                                            | 23                           |
| Cash and cash equivalents                        | <u>478</u>                                             | 4              | 2,768                                                      | <u>3,246</u>                 |
|                                                  | <u>5,216</u>                                           |                |                                                            | <u>7,979</u>                 |

|                                                 | <b>30 September<br/>2004</b><br><i>In HK\$'million</i> | <i>Note(s)</i> | <b>Pro forma<br/>adjustments</b><br><i>In HK\$'million</i> | <b>Adjusted<br/>balances</b> |
|-------------------------------------------------|--------------------------------------------------------|----------------|------------------------------------------------------------|------------------------------|
| <b>Current liabilities</b>                      |                                                        |                |                                                            |                              |
| Accounts payable                                | 172                                                    |                |                                                            | 172                          |
| Accruals, other payables and<br>deferred income | 1,298                                                  | 5              | (9)                                                        | 1,289                        |
| Amounts due to related companies                | 4                                                      |                |                                                            | 4                            |
| Amounts due to fellow subsidiaries              | 3                                                      |                |                                                            | 3                            |
| Amount due to ultimate holding<br>company       | 10                                                     |                |                                                            | 10                           |
| Provisions                                      | 1,227                                                  |                |                                                            | 1,227                        |
| Taxation                                        | <u>35</u>                                              | 6              | 9                                                          | <u>44</u>                    |
|                                                 | <u>2,749</u>                                           |                |                                                            | <u>2,749</u>                 |
| <b>Net current assets</b>                       | <u>2,467</u>                                           |                |                                                            | <u>5,230</u>                 |
| <b>Total assets less current liabilities</b>    | <u>13,819</u>                                          |                |                                                            | <u>14,270</u>                |
| <b>Non-current liabilities</b>                  |                                                        |                |                                                            |                              |
| Deferred taxation                               | 530                                                    | 7              | (21)                                                       | 509                          |
| Provisions                                      | 3,174                                                  |                |                                                            | 3,174                        |
| Convertible notes                               | 3,609                                                  |                |                                                            | 3,609                        |
| Amount due to ultimate holding<br>company       | 3,907                                                  |                |                                                            | 3,907                        |
| Other long-term liabilities                     | <u>64</u>                                              |                |                                                            | <u>64</u>                    |
|                                                 | <u>11,284</u>                                          |                |                                                            | <u>11,263</u>                |
| <b>Net assets</b>                               | <u><u>2,535</u></u>                                    |                |                                                            | <u><u>3,007</u></u>          |

**II. Unaudited pro forma consolidated income statement**

The following is the unaudited pro forma consolidated income statement of the Group assuming that the Property had been disposed of on 1 January 2004. The unaudited pro forma consolidated income statement was prepared based on the unaudited condensed consolidated income statement of the Group for the nine month period ended 30 September 2004, as set out in the Interim Report of the Company.

This unaudited pro forma consolidated income statement was prepared for illustrative purposes only and because of its nature, it may not give a true picture of the results of the Group for any future financial periods.

|                                                    | <b>Period ended<br/>30 September<br/>2004</b> | <i>Note(s)</i> | <b>Pro forma<br/>adjustments</b> | <b>Adjusted<br/>balances</b> |
|----------------------------------------------------|-----------------------------------------------|----------------|----------------------------------|------------------------------|
|                                                    | <i>In HK\$'million</i>                        |                | <i>In HK\$'million</i>           |                              |
| Turnover                                           | <u>3,250</u>                                  |                | <u>(114)</u>                     | <u>3,136</u>                 |
| Profit from operations                             | 429                                           | 8              | (66)                             | 363                          |
| Gain on disposal of fixed assets                   | —                                             | 9              | 594                              | 594                          |
| Finance costs, net                                 | <u>(65)</u>                                   |                | <u>—</u>                         | <u>(65)</u>                  |
| Profit before taxation                             | 364                                           |                | 528                              | 892                          |
| Taxation                                           | <u>(76)</u>                                   | 2,6,7,10       | <u>17</u>                        | <u>(59)</u>                  |
| Profit for the period attributable to shareholders | <u>288</u>                                    |                | <u>545</u>                       | <u>833</u>                   |

**III. Notes to pro forma financial information**

1. The adjustment reflects the disposal of the Property with a carrying amount as at 30 September 2004 of HK\$2,309 million.
2. The adjustment reflects the realisation of the deferred tax assets of HK\$3 million related to the Property.
3. The adjustment reflects the write-off of insurance premium of HK\$5 million to the income statement.
4. The adjustment reflects the cash of HK\$2,808 million received from the sale of the Property after payment of the transaction fee of HK\$31 million and transfer of tenant deposits of HK\$9 million to the Purchaser.

5. The adjustment reflects the transfer of tenant deposits of HK\$9 million to the Purchaser.
6. The adjustment reflects the tax provision due to disposal of the Property.
7. The adjustment reflects the reversal of deferred tax liability of HK\$21 million related to the Property.
8. The adjustment reflects the reduction in operating results of the Property for the nine month period ended 30 September 2004 of HK\$71 million as if the disposal was effected on 1 January 2004 and the write-off of insurance premium of HK\$5 million.
9. The gain on disposal of fixed assets of HK\$594 million represents the sale proceeds of HK\$2,808 million in excess of the net book value as at 1 January 2004 of HK\$2,323 million after deduction of transaction fee of HK\$31 million but taking into account the amount of revaluation surplus of HK\$140 million.

In December 2004, the Hong Kong Institute of Certified Public Accountants (“HKICPA”) issued Hong Kong Accounting Standard (“HKAS”) 40 “Investment Property” which is effective for annual periods beginning on or after 1 January 2005. Accordingly, at the date of completion of the Disposal, which is expected to be 3 March 2005, HKAS 40 should have come into effect and would be applicable to the Company.

Under the transitional provisions of HKAS 40, any amount held in the revaluation reserve for investment property recorded at the date of adoption of HKAS 40 will be reclassified to retained earnings on that date as an adjustment to the opening balance of retained earnings.

In addition, upon first adoption of HKAS 40, certain of the floors within the Property that are currently leased to PCCW Services Limited (being a fellow subsidiary) will be reclassified as investment property. On the basis that the Company will use the fair value model under HKAS 40, the carrying value of these floors will be adjusted to fair value on 1 January 2005 and the Company shall report the effect of applying the new standard as an adjustment to the opening balance of retained earnings as at 1 January 2005.

As a result of the adoption of HKAS 40, the Directors expect the gain on disposal at Completion will be close to nil. The actual gain or loss will be determined on Completion base on applicable accounting principles effective at that time.

10. The adjustment reflects the realisation of the deferred tax assets of HK\$3 million, the reversal of deferred tax liability of HK\$21 million and the tax provision related to the Property for the period up to 30 September 2004 and the disposal of the Property of HK\$1 million.



|             |                                                                                                                                                                                                |
|-------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 羅兵咸永道會計師事務所 | <b>PricewaterhouseCoopers</b><br>22/F, Prince's Building<br>Central, Hong Kong<br>Telephone: (852) 2289 8888<br>Facsimile: (852) 2810 9888<br><a href="http://www.pwchk.com">www.pwchk.com</a> |
|-------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

30 December 2004

The Directors  
Pacific Century Premium Developments Limited

Dear Sirs

We report on the unaudited pro forma financial information of Pacific Century Premium Developments Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out on pages 24 to 27 of the Company’s circular dated 30 December 2004 in connection with the very substantial disposal of the property known as PCCW Tower situated at Taikoo Place, No. 979 King’s Road, Quarry Bay, Hong Kong (the “Property”). The unaudited pro forma financial information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the disposal of the Property might affect the relevant financial information of the Group.

**Responsibilities**

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“the Listing Rules”).

It is our responsibility to form an opinion, as required by paragraph 4.29 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of opinion**

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company.

Our work did not constitute an audit or review in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such assurance on the unaudited pro forma financial information.

The unaudited pro forma financial information has been prepared on the basis set out on pages 24 to 27 for illustrative purpose only and, because of its nature, it may not be indicative of:

- the financial position of the Group at any future date, or
- the earnings of the Group for any future periods.

**Opinion**

In our opinion:

- a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Company, and
- c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29 of the Listing Rules.

Yours faithfully  
**PricewaterhouseCoopers**  
*Certified public accountants*  
Hong Kong

**I FINANCIAL INFORMATION**

On 5 March 2004, PCCW and the Company (then known as Dong Fang Gas Holdings Limited (“DFG”)) signed a Sale and Purchase Agreement under which PCCW agreed to transfer its holdings in Ipswich Holdings Limited (“Ipswich”) and its subsidiaries (together, the “Property Group”) to DFG at a consideration of HK\$6,557 million (the “Acquisition”). Prior to completion of the Acquisition, Ipswich and the companies which would become its subsidiaries (the “Subsidiary Companies”), underwent the reorganisation whereby Ipswich became the holding company of the Group (the “Reorganisation”).

Pursuant to the Reorganisation which was completed prior to the completion of the Acquisition, Ipswich acquired the entire issued share capital of ACCA Investment Limited, Carmay Investment Limited, Cyber-Port Management Limited, Extra Lite International Limited, Excel Bright Properties Limited, Island South Property Management Limited, Midgre Properties Limited, PCCW Properties (HK) Limited, PCCW Property Management Limited, PCCW Real Estate Agency Limited, Pride Pacific Limited, Smart Phoenix Limited and Talent Master Investments Limited and became the holding company of the Property Group.

The Acquisition was completed on 10 May 2004 and the details of the transaction were set out in the April 2004 Circular issued by the Company.

Under generally accepted accounting principles in Hong Kong, the Acquisition is accounted for as a reverse acquisition since the issuance of the Consideration Shares and Convertible Notes (as each term is defined in the April 2004 Circular) resulted in PCCW becoming the controlling shareholder of the Company. For accounting purposes, the Property Group is treated as acquirer while the Company and its subsidiaries are deemed to have been acquired by the Property Group.

The financial information set out below are extracted from the April 2004 Circular representing the Property Group.

**(a) Combined Income Statement**

The following is a summary of the combined income statements of the Property Group for each of the three years ended 31 December 2001, 2002 and 2003 (the “Relevant Periods”), prepared on the basis as set out in Note 1 under Section II below, after making such adjustments as are appropriate:

|                                                                                                                        | <i>Note(s)</i> | <b>For the year ended 31 December</b> |              |              |
|------------------------------------------------------------------------------------------------------------------------|----------------|---------------------------------------|--------------|--------------|
|                                                                                                                        |                | <b>2001</b>                           | <b>2002</b>  | <b>2003</b>  |
|                                                                                                                        |                | <i>In HK\$'million</i>                |              |              |
| Turnover                                                                                                               | 4 & 5          | <u>1,105</u>                          | <u>496</u>   | <u>4,528</u> |
| Operating profit before provisions for impairment losses and (deficit)/surplus on revaluation of investment properties | 6              | 255                                   | 207          | 152          |
| Provisions for impairment losses                                                                                       | 14             | (11)                                  | (4)          | —            |
| (Deficit)/Surplus on revaluation of investment properties                                                              | 14             | <u>(105)</u>                          | <u>64</u>    | <u>41</u>    |
| Profit from operations                                                                                                 | 5 & 7          | 139                                   | 267          | 193          |
| Finance costs, net                                                                                                     | 8              | <u>(24)</u>                           | <u>(112)</u> | <u>(160)</u> |
| Profit before taxation                                                                                                 |                | 115                                   | 155          | 33           |
| Taxation                                                                                                               | 10             | <u>(138)</u>                          | <u>(60)</u>  | <u>(30)</u>  |
| (Loss)/Profit for the year attributable to shareholder                                                                 | 5              | <u>(23)</u>                           | <u>95</u>    | <u>3</u>     |
| (Loss)/Earnings per share                                                                                              | 11             | <u>(23)</u>                           | <u>95</u>    | <u>3</u>     |

**(b) Combined Balance Sheet**

The following is a summary of the combined balance sheets of the Property Group as at 31 December 2001, 2002 and 2003, prepared on the basis as set out in Note 1 under Section II below, after making such adjustments as are appropriate:

|                                                  |       | As at 31 December |                |                |
|--------------------------------------------------|-------|-------------------|----------------|----------------|
|                                                  | Note  | 2001              | 2002           | 2003           |
|                                                  |       | In HK\$'million   |                |                |
| <b>ASSETS AND LIABILITIES</b>                    |       |                   |                |                |
| <b>Non-current assets</b>                        |       |                   |                |                |
| Fixed assets                                     | 14    | 5,962             | 6,002          | 6,294          |
| Properties under development                     | 15    | 2,012             | 4,334          | 3,769          |
| Deferred tax asset                               | 23(b) | —                 | 8              | 20             |
|                                                  |       | <u>7,974</u>      | <u>10,344</u>  | <u>10,083</u>  |
| <b>Current assets</b>                            |       |                   |                |                |
| Properties under development                     | 15    | —                 | —              | 286            |
| Sales proceeds held in stakeholders' accounts    | 17(a) | —                 | —              | 2,402          |
| Restricted cash                                  | 17(b) | —                 | —              | 2,701          |
| Prepayments, deposits and other current assets   |       | 214               | 101            | 121            |
| Accounts receivable, net                         | 17(c) | 63                | 25             | 22             |
| Cash and cash equivalents                        | 24(b) | <u>170</u>        | <u>337</u>     | <u>124</u>     |
|                                                  |       | <u>447</u>        | <u>463</u>     | <u>5,656</u>   |
| <b>Current liabilities</b>                       |       |                   |                |                |
| Current portion of long-term liabilities         | 18    | (142)             | (76)           | (94)           |
| Accounts payable                                 | 17(d) | (85)              | (285)          | (372)          |
| Accruals, other payables and deferred income     |       | (735)             | (526)          | (1,041)        |
| Gross amounts due to customers for contract work | 17(e) | (48)              | (10)           | —              |
| Amounts due to related companies                 | 3(c)  | (9)               | (3)            | (5)            |
| Amount due to ultimate holding company           | 3(c)  | (4,384)           | (2,503)        | (2,441)        |
| Provisions                                       | 19    | —                 | —              | (1,759)        |
| Taxation                                         |       | <u>(50)</u>       | <u>(50)</u>    | <u>(2)</u>     |
|                                                  |       | <u>(5,453)</u>    | <u>(3,453)</u> | <u>(5,714)</u> |
| Net current liabilities                          |       | (5,006)           | (2,990)        | (58)           |

## (b) Combined Balance Sheet (continued)

|                                              | <i>Note</i> | <b>As at 31 December</b> |                |                 |
|----------------------------------------------|-------------|--------------------------|----------------|-----------------|
|                                              |             | <b>2001</b>              | <b>2002</b>    | <b>2003</b>     |
|                                              |             | <i>In HK\$'million</i>   |                |                 |
| <b>Total assets less current liabilities</b> |             | <u>2,968</u>             | <u>7,354</u>   | <u>10,025</u>   |
| <b>Non-current liabilities</b>               |             |                          |                |                 |
| Long-term liabilities                        | 18          | (1,001)                  | (1,126)        | (1,057)         |
| Deferred taxation                            | 23          | (433)                    | (462)          | (506)           |
| Provisions                                   | 19          | —                        | —              | (1,941)         |
| Amount due to ultimate holding company       | 3(c)        | (1,740)                  | (3,955)        | (4,503)         |
| Loan from ultimate holding company           | 3(b)        | —                        | (359)          | (359)           |
| Loan from a fellow subsidiary                | 3(b)        | —                        | (2,000)        | (2,000)         |
| Defined benefit liability                    | 20          | —                        | —              | (4)             |
| Other long-term liabilities                  |             | <u>(51)</u>              | <u>(87)</u>    | <u>(27)</u>     |
|                                              |             | <u>(3,225)</u>           | <u>(7,989)</u> | <u>(10,397)</u> |
| <b>Net liabilities</b>                       |             | <u>(257)</u>             | <u>(635)</u>   | <u>(372)</u>    |
| <b>REPRESENTING:</b>                         |             |                          |                |                 |
| Share capital                                | 21          | —                        | —              | —               |
| Deficit                                      | 22          | <u>(257)</u>             | <u>(635)</u>   | <u>(372)</u>    |
| <b>Shareholder's deficit</b>                 |             | <u>(257)</u>             | <u>(635)</u>   | <u>(372)</u>    |

**(c) Balance Sheet**

The following is a summary of the balance sheets of Ipswich Holdings Limited as at 31 December 2001, 2002 and 2003:

|                                           |      | As at 31 December |                 |                 |
|-------------------------------------------|------|-------------------|-----------------|-----------------|
|                                           | Note | 2001              | 2002            | 2003            |
|                                           |      | In HK\$           |                 |                 |
| <b>ASSETS AND LIABILITIES</b>             |      |                   |                 |                 |
| <b>Non-current assets</b>                 |      |                   |                 |                 |
| Investment in subsidiary                  | 16   | <u>2</u>          | <u>2</u>        | <u>2</u>        |
| <b>Current assets</b>                     |      |                   |                 |                 |
| Amount due from immediate holding company | 3(c) | <u>8</u>          | <u>8</u>        | <u>8</u>        |
| <b>Current liabilities</b>                |      |                   |                 |                 |
| Amounts due to fellow subsidiaries        | 3(c) | <u>(2)</u>        | <u>(12,872)</u> | <u>(17,162)</u> |
| Net current assets/(liabilities)          |      | <u>6</u>          | <u>(12,864)</u> | <u>(17,154)</u> |
| <b>Net assets/(liabilities)</b>           |      | <u>8</u>          | <u>(12,862)</u> | <u>(17,152)</u> |
| <b>REPRESENTING:</b>                      |      |                   |                 |                 |
| Share capital                             | 21   | 8                 | 8               | 8               |
| Deficit                                   |      | <u>—</u>          | <u>(12,870)</u> | <u>(17,160)</u> |
| Shareholder's funds/(deficit)             |      | <u>8</u>          | <u>(12,862)</u> | <u>(17,152)</u> |

**(d) Combined Cash Flow Statement**

The following is a summary of the combined cash flow statements of the Property Group for the Relevant Periods, prepared on the basis as set out in Note 1 under Section II below, after making such adjustments as are appropriate:

|                                                                                         |             | <b>For the year ended 31 December</b> |                   |                   |
|-----------------------------------------------------------------------------------------|-------------|---------------------------------------|-------------------|-------------------|
|                                                                                         | <i>Note</i> | <b>2001</b>                           | <b>2002</b>       | <b>2003</b>       |
|                                                                                         |             | <i>In HK\$'million</i>                |                   |                   |
| <b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>                                       | 24(a)       | <u>(1,035)</u>                        | <u>(2,076)</u>    | <u>(545)</u>      |
| <b>INVESTING ACTIVITIES</b>                                                             |             |                                       |                   |                   |
| Purchases of fixed assets                                                               |             | (174)                                 | (3)               | (14)              |
| Proceeds from disposal of investment properties                                         |             | <u>—</u>                              | <u>—</u>          | <u>6</u>          |
| <b>NET CASH OUTFLOW FROM INVESTING ACTIVITIES</b>                                       |             | <u>(174)</u>                          | <u>(3)</u>        | <u>(8)</u>        |
| <b>FINANCING ACTIVITIES</b>                                                             |             |                                       |                   |                   |
| New loans raised                                                                        |             | 150                                   | 1,196             | 26                |
| New loans and increase in advance from ultimate holding company and fellow subsidiaries |             | 1,180                                 | 2,660             | 389               |
| Repayment of loans                                                                      |             | (188)                                 | (1,137)           | (75)              |
| Dividends paid                                                                          | 12          | <u>(9)</u>                            | <u>(473)</u>      | <u>—</u>          |
| <b>NET CASH INFLOW FROM FINANCING ACTIVITIES</b>                                        |             | <u>1,133</u>                          | <u>2,246</u>      | <u>340</u>        |
| <b>(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>                                 |             | (76)                                  | 167               | (213)             |
| <b>CASH AND CASH EQUIVALENTS</b>                                                        |             |                                       |                   |                   |
| At 1 January                                                                            |             | <u>246</u>                            | <u>170</u>        | <u>337</u>        |
| At 31 December                                                                          | 24(b)       | <u><u>170</u></u>                     | <u><u>337</u></u> | <u><u>124</u></u> |

**(e) Combined Statements of Changes in Equity**

The following is a summary of the combined statements of changes in equity of the Property Group for the Relevant Periods, prepared on the basis as set out in Note 1 under Section II below, after making such adjustments as are appropriate:

|                                                                                     | <i>Note</i> | <b>For the year ended 31 December</b> |              |              |
|-------------------------------------------------------------------------------------|-------------|---------------------------------------|--------------|--------------|
|                                                                                     |             | <b>2001</b>                           | <b>2002</b>  | <b>2003</b>  |
|                                                                                     |             | <i>In HK\$'million</i>                |              |              |
| Total shareholder's deficit at 1 January                                            |             | (113)                                 | (257)        | (635)        |
| (Deficit)/surplus on revaluation of investment properties, net of deferred taxation | 22          | (112)                                 | —            | 263          |
| Translation exchange difference                                                     | 22          | <u>—</u>                              | <u>—</u>     | <u>(3)</u>   |
| Net (losses)/gains not recognised in income statement                               |             | (112)                                 | —            | 260          |
| Net (loss)/profit for the year                                                      | 22          | (23)                                  | 95           | 3            |
| Dividends distribution                                                              | 12          | <u>(9)</u>                            | <u>(473)</u> | <u>—</u>     |
| Total shareholder's deficit at 31 December                                          |             | <u>(257)</u>                          | <u>(635)</u> | <u>(372)</u> |

## II NOTES TO THE FINANCIAL INFORMATION

*(Amount expressed in Hong Kong dollars unless otherwise stated)*

### 1. BASIS OF PREPARATION

On 5 March 2004, PCCW and the Company (then known as Dong Fang Gas Holdings Limited (“DFG”)) signed a Sale and Purchase Agreement under which PCCW agreed to transfer its holdings in Ipswich Holdings Limited (“Ipswich”) and its subsidiaries (together, the “Property Group”) to DFG at a consideration of HK\$6,557 million (the “Acquisition”). Prior to completion of the Acquisition, Ipswich and the companies which would become its subsidiaries (the “Subsidiary Companies”), underwent the reorganisation whereby Ipswich became the holding company of the Group (the “Reorganisation”).

Pursuant to the Reorganisation which was completed prior to the completion of Acquisition, Ipswich acquired the entire issued share capital of ACCA Investment Limited, Carmay Investment Limited, Cyber-Port Management Limited, Extra Lite International Limited, Excel Bright Properties Limited, Island South Property Management Limited, Midgre Properties Limited, PCCW Properties (HK) Limited, PCCW Property Management Limited, PCCW Real Estate Agency Limited, Pride Pacific Limited, Smart Phoenix Limited and Talent Master Investments Limited and became the holding company of the Property Group.

The Reorganisation is accounted for using merger accounting. Accordingly, the Financial Information of the Property Group as of and for each of the three years ended 31 December 2001, 2002 and 2003 has been prepared as if Ipswich had been the holding company of the companies in the Property Group since 1 January 2001 or since the respective dates of incorporation of the companies, if this is a shorter period.

At 31 December 2003, the Property Group had net liabilities of HK\$372 million including loans from PCCW and its subsidiaries of HK\$9,303 million. PCCW had confirmed that HK\$2,441 million of the loans would be capitalised into shares of Ipswich prior to the completion of the Acquisition. As at 31 December 2003, excluding the loan of HK\$2,441 million to be capitalised, the Property Group owed PCCW Central Resources Limited, a wholly owned subsidiary of PCCW, and PCCW of approximately HK\$2,000 million and HK\$359 million, respectively. PCCW had undertaken not to demand repayment of these loans prior to completion of the Acquisition and would transfer the loan from PCCW Central Resources Limited of approximately HK\$2,000 million and the loan from PCCW of approximately HK\$359 million to DFG as part of the Acquisition. In addition, PCCW had also undertaken that it would not demand repayment of the loan of HK\$4,503 million owed to it by Cyber-Port Limited until Cyber-Port Limited had excess proceeds available from the sale of the Cyber-Port residential units to make the repayment. Consequently, the directors have prepared the Financial Information on a going concern basis.

### 2. PRINCIPAL ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with HK GAAP and complies with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (formerly known as the Hong Kong Society of Accountants (the “HKSA”)). The Financial Information is prepared under the historical cost convention modified by the revaluation of investment properties. The principal accounting policies set out below are applicable to both the Property Group and the Company and its subsidiaries (the “Group”).

#### a. Basis of combination

The Financial Information includes the assets, liabilities, profits and losses and cash flows of the companies which comprises the Property Group on completion of the Reorganisation for the Relevant Periods or since their respective dates of incorporation, whichever period is shorter. All significant intra-group transactions and balances have been eliminated on combination.

**b. Revenue recognition**

Provided it is probable that the economic benefits will flow to the Group and 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 income arising from sales of completed properties is recognised upon completion of the sale when title passes to the purchaser.

Revenue and income arising from the pre-sale of properties under development is recognised on the percentage of construction completion basis when legally binding unconditional sales contracts are signed and exchanged, provided that the construction work has progressed to a stage where the ultimate realisation of profit can be reasonably determined and on the basis that the total estimated profit is apportioned over the entire period of construction to reflect the progress of the development.

*ii. Rental income from operating leases*

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

*iii. Contract revenue*

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

*iv. Interest income*

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

**c. Operating leases**

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

*i. Assets held for use in operating leases*

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 2(d). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(f). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 2(b)(ii).

*ii. Operating lease charges*

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

**d. Fixed assets and depreciation**

Fixed assets, excluding investment properties, are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(f)). The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset and is depreciated over the original remaining useful life of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure, such as repairs and maintenance and overhaul costs, is recognised as an expense in the period in which it is incurred.

Depreciation is calculated to write off the cost on a straight-line basis over their estimated useful lives as follows:

|                           |                                                                   |
|---------------------------|-------------------------------------------------------------------|
| Land and buildings        | Over the shorter of the lease term and the estimated useful lives |
| Other plant and equipment | Over the shorter of 2 to 10 years and the term of lease           |

Gains or losses arising from the retirement or disposal of a fixed asset 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.

**e. Investment properties**

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential and for the long term.

Investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value, on the basis of an annual valuation by professionally qualified executives of the Group and by independent valuers at intervals of not more than three years. Changes arising on the revaluation of investment properties are generally dealt with in the property revaluation reserve unless the following circumstances arise:

- when a deficit arises on revaluation, it will be charged to the income statement, if and to the extent that it exceeds the amount held in the reserve in respect of the portfolio of investment properties, immediately prior to the revaluation; and
- when a surplus arises on revaluation, it will be credited to the income statement, if and to the extent that a deficit on revaluation in respect of the portfolio of investment properties, had previously been charged to the income statement.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the property revaluation reserve to the income statement as part of the gain or loss on disposal of the investment property.

No depreciation is provided on investment properties unless the unexpired lease term is 20 years or less, in which case depreciation is provided on their carrying value over the unexpired lease term.

In December 2004, HKICPA issued Hong Kong Accounting Standard (“HKAS”) 40 “Investment Property” which is effective for annual periods beginning on or after 1 January 2005.

Under the transitional provisions of HKAS 40, any amount held in revaluation reserves for investment property recorded at the date of adoption of HKAS 40 will be reclassified to retained earnings on that date as an adjustment to the opening balance of retained earnings.

Upon first adoption of HKAS 40, certain of the floors within the Property that are currently leased to a fellow subsidiary will be reclassified as investment properties. Under the fair value model of HKAS 40, the carrying value of that portion being reclassified will be adjusted to fair value on 1 January 2005 and the effect of the adjustment will be adjusted to the opening balance of retained earnings as at 1 January 2005.

**f. Impairment of assets**

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

- fixed assets; and
- investments in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

*i. Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and its value in use. Net selling price 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

*ii. Reversals of impairment losses*

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

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

**g. Properties held for development**

Properties held for development represent interests in land where construction has not yet commenced. Properties held for development are stated at cost less any provision for impairment in value. Costs include original land acquisition costs, costs of land use rights, and any direct development costs incurred attributable to such properties.

**h. Properties under development**

Properties under development represent interests in land and buildings under construction. Properties under development for long-term purposes are stated at cost less any provision for impairment in value. Properties under development for sale, pre-sales of which have not yet commenced are carried at the lower of cost and the estimated net realisable value. Properties under development for sale for which pre-sales have commenced are stated at cost plus attributable profits less sale deposits, instalments received and receivable and any foreseeable losses.

Cost includes original land acquisition costs, costs of land use rights, construction expenditure 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.

Properties under development for long-term retention, on completion, are transferred to fixed assets or investment properties.

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

**i. Subsidiaries**

A subsidiary is a company in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern its financial and operating policies, so as to obtain benefits from their activities.

In the Company's balance sheet, investments in subsidiaries are stated at cost less any impairment loss (see note 2 (f)). The results of subsidiaries are recognised by the Company to the extent of dividends received and receivable at the balance sheet date.

**j. Properties held for sale**

Properties held for sale are stated at the lower of cost and the estimated net realisable value. Cost includes development and construction expenditure incurred, interest incurred during the construction period and other direct costs attributable to such properties. Net realisable value is estimated by the directors based on prevailing market prices, on an individual property basis, less any further costs expected to be incurred in selling the property.

**k. Construction contracts**

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

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

**l. Cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition, less bank overdrafts that are repayable on demand and form an integral part of the Group's cash management, and also advances from banks repayable within three months from the dates of advances.

**m. 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 (i.e. more likely than not) that an outflow of economic benefits 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 amount required. 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 economic benefits 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.

**n. 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 complete.

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

**o. Income tax**

Income tax for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

- i. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous year.
- ii. Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases respectively. Deferred tax assets also arise from unused tax losses and unused tax credits.

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

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

**p. Employee benefits**

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

- ii. Defined benefit and defined contribution retirement schemes (including the Mandatory Provident Fund) are offered to employees of the Group. The schemes are operated by PCCW and the assets of which are generally held in separate trustee — administered funds. The schemes are generally funded by payments from the relevant companies of the PCCW and its subsidiaries (the “PCCW Group”) and, in some cases, employees themselves, taking account of the recommendations of independent qualified actuaries.

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

Retirement costs under defined benefit retirement schemes are assessed using the projected unit credit method. Under this method, the cost of providing defined benefits is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the schemes on an annual basis. The defined benefit obligation is measured as the present value of the estimated future cash outflows using interest rates determined by reference to market yields at the balance sheet date based on Exchange Fund Notes, which have terms to maturity approximating the terms of the related liability. Scheme assets are measured at fair value. Actuarial gains and losses, to the extent that the amount is in excess of 10 percent of the greater of the present value of the defined benefit obligations and the fair value of the scheme assets, are recognised in the income statement over the expected average remaining service lives of the participating employees. Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested.

- iii. Employee termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

#### **q. Foreign currencies**

Companies comprising the Group maintain their books and records in the primary currencies of their operations (the “respective reporting currencies”).

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

For the purposes of preparing these combined financial statements, the financial statements of the individual companies with reporting currencies other than Hong Kong dollars are translated into Hong Kong dollars using the net investment method. Under this method, assets and liabilities of these individual companies are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Income and expenses are translated at the average exchange rates for the year. Share capital and other reserves are translated into Hong Kong dollars at historical rates. Exchange differences arising on translation are dealt with as movements in reserves.

#### **r. Management estimates**

The presentation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### **s. Segment reporting**

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

The directors consider that the Property Group operates in one business segment being investment in and development of properties. Accordingly, the Property Group uses geographical segment information as the primary reporting format for the purposes of these financial statements.

### 3. RELATED PARTY TRANSACTIONS

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

- a. During the Relevant Periods, the Property Group had the following significant transactions with related companies:

|                                                                                                | The Property Group     |           |           |
|------------------------------------------------------------------------------------------------|------------------------|-----------|-----------|
|                                                                                                | 2001                   | 2002      | 2003      |
|                                                                                                | <i>In HK\$'million</i> |           |           |
| Interest expenses paid or payable to fellow subsidiary and the ultimate holding company        | —                      | 33        | 97        |
| Corporate expenses recharged by a fellow subsidiary                                            | 76                     | 47        | 42        |
| Accommodation expenses recharged by a fellow subsidiary                                        | —                      | —         | 12        |
| Amount received and receivable in respect of services rendered                                 | —                      | 2         | 71        |
| Amount received and receivable from the rental of investment properties to fellow subsidiaries | 136                    | 116       | 60        |
| System integration charges paid or payable to a fellow subsidiary                              | —                      | 83        | 34        |
|                                                                                                | <u>—</u>               | <u>83</u> | <u>34</u> |

The above transactions were carried out after negotiations between the Property Group and the related parties in the ordinary course of business. In respect of transactions for which the price or volume has not yet been agreed with the relevant related parties, the directors have determined the relevant amounts based on their best estimation.

- b. Loans of HK\$2,359 million as at 31 December 2003 (2002: HK\$2,359 million; 2001: Nil) from ultimate holding company and a fellow subsidiary are unsecured, bear interest at 2.69 percent per annum over Hong Kong Inter-bank Offered rates and are not repayable within one year.
- c. Balances with related parties other than as specified in this note are unsecured, non-interest bearing and have no fixed repayment terms.
- d. PCCW operates a share option scheme where the board of directors of PCCW may, at their discretion, grant options to subscribe for the shares of PCCW to directors and employees of PCCW Group, including employees of the Property Group. No compensation costs are recognised in the income statement of the Property Group in respect of the share option scheme.

During the year ended 31 December 2002, certain wholly-owned subsidiaries of PCCW each established two employee share incentive award schemes (namely the Purchase Scheme and the Subscription Scheme) under which employees of PCCW Group including employees of the Property Group may be selected to participate in these schemes that are relevant to their employment and which can lead to the vesting and transfer of the shares of PCCW subject to the terms and conditions specified therein. Where cost of shares are recharged to the Property

Group, they are recognised in the balance sheet as prepaid expenses at the date of grant and amortised over the respective vesting period and recognised in the income statement as staff costs. During the years ended 31 December 2002 and 2003, PCCW has not recharged the cost of shares to the Property Group therefore no costs were recognised in the combined financial statements of the Group in respect of these schemes.

- e. Part of the office premise currently occupied by the Property Group in Hong Kong is on a cost sharing basis. The lease is entered into by a fellow subsidiary with the landlord. The Property Group shares the rental and other accommodation costs according to the area it occupies.

4. TURNOVER

|                                                                                           | The Property Group     |            |              |
|-------------------------------------------------------------------------------------------|------------------------|------------|--------------|
|                                                                                           | 2001                   | 2002       | 2003         |
|                                                                                           | <i>In HK\$'million</i> |            |              |
| Amounts received and receivable in respect of properties sold                             | 218                    | —          | 4,111        |
| Amounts received and receivable from the rental of investment properties and fixed assets | 392                    | 430        | 346          |
| Revenues from construction contracts                                                      | 495                    | 63         | —            |
| Amounts received and receivable in respect of services rendered                           | <u>—</u>               | <u>3</u>   | <u>71</u>    |
|                                                                                           | <u>1,105</u>           | <u>496</u> | <u>4,528</u> |

5. SEGMENT INFORMATION

Segment information is presented in respect of the Property Group’s geographical segments.

Geographical segments

The Property Group’s businesses are operated in two principal economic environments. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

|                            | Hong Kong       |            |              | Mainland China  |            |            | Combined        |            |              |
|----------------------------|-----------------|------------|--------------|-----------------|------------|------------|-----------------|------------|--------------|
|                            | 2001            | 2002       | 2003         | 2001            | 2002       | 2003       | 2001            | 2002       | 2003         |
|                            | In HK\$'million |            |              | In HK\$'million |            |            | In HK\$'million |            |              |
| <b>REVENUE</b>             |                 |            |              |                 |            |            |                 |            |              |
| External revenue           | <u>742</u>      | <u>288</u> | <u>4,343</u> | <u>363</u>      | <u>208</u> | <u>185</u> | <u>1,105</u>    | <u>496</u> | <u>4,528</u> |
| <b>RESULT</b>              |                 |            |              |                 |            |            |                 |            |              |
| Segment result             | 53              | 163        | 80           | 86              | 104        | 113        | 139             | 267        | 193          |
| Finance costs, net         |                 |            |              |                 |            |            | (24)            | (112)      | (160)        |
| Profit before taxation     |                 |            |              |                 |            |            | 115             | 155        | 33           |
| Taxation                   |                 |            |              |                 |            |            | (138)           | (60)       | (30)         |
| (Loss)/Profit for the year |                 |            |              |                 |            |            | <u>(23)</u>     | <u>95</u>  | <u>3</u>     |

APPENDIX III

FINANCIAL INFORMATION ON THE GROUP

|                                                                                                                                              | Hong Kong       |       |        | Mainland China  |       |       | Combined        |        |        |
|----------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-------|--------|-----------------|-------|-------|-----------------|--------|--------|
|                                                                                                                                              | 2001            | 2002  | 2003   | 2001            | 2002  | 2003  | 2001            | 2002   | 2003   |
|                                                                                                                                              | In HK\$'million |       |        | In HK\$'million |       |       | In HK\$'million |        |        |
| ASSETS                                                                                                                                       |                 |       |        |                 |       |       |                 |        |        |
| Segment assets                                                                                                                               | 4,393           | 6,729 | 11,695 | 4,028           | 4,070 | 4,024 | 8,421           | 10,799 | 15,719 |
| Deferred taxation                                                                                                                            |                 |       |        |                 |       |       | —               | 8      | 20     |
| Total assets                                                                                                                                 |                 |       |        |                 |       |       | 8,421           | 10,807 | 15,739 |
| LIABILITIES                                                                                                                                  |                 |       |        |                 |       |       |                 |        |        |
| Segment liabilities                                                                                                                          | 611             | 661   | 4,936  | 308             | 247   | 208   | 919             | 908    | 5,144  |
| Provision for taxation                                                                                                                       |                 |       |        |                 |       |       | 50              | 50     | 2      |
| Deferred taxation                                                                                                                            |                 |       |        |                 |       |       | 433             | 462    | 506    |
| Bank loans                                                                                                                                   |                 |       |        |                 |       |       | 1,143           | 1,202  | 1,151  |
| Unallocated liabilities                                                                                                                      |                 |       |        |                 |       |       | 6,133           | 8,820  | 9,308  |
| Total liabilities                                                                                                                            |                 |       |        |                 |       |       | 8,678           | 11,442 | 16,111 |
| OTHER INFORMATION                                                                                                                            |                 |       |        |                 |       |       |                 |        |        |
| Capital expenditure<br>(including fixed assets)<br>incurred during the year                                                                  | 1               | 1     | 1      | 493             | 1     | 14    |                 |        |        |
| Depreciation and<br>amortisation                                                                                                             | 19              | 17    | 18     | 2               | 5     | 5     |                 |        |        |
| Impairment loss recognised<br>in income statement                                                                                            | 11              | 4     | —      | —               | —     | —     |                 |        |        |
| (Deficit)/Surplus on<br>revaluation of investment<br>properties (charged)/<br>credited to income<br>statement                                | (105)           | 64    | 41     | —               | —     | —     |                 |        |        |
| Significant non-cash<br>expenses (excluding<br>depreciation, amortisation<br>and impairment loss and<br>(deficit)/surplus on<br>revaluation) | —               | —     | —      | 2               | 34    | 2     |                 |        |        |

## 6. OPERATING PROFIT BEFORE PROVISIONS FOR IMPAIRMENT LOSSES AND (DEFICIT)/SURPLUS ON REVALUATION OF INVESTMENT PROPERTIES

|                                                                                                                        | The Property Group     |            |            |
|------------------------------------------------------------------------------------------------------------------------|------------------------|------------|------------|
|                                                                                                                        | 2001                   | 2002       | 2003       |
|                                                                                                                        | <i>In HK\$'million</i> |            |            |
| Turnover                                                                                                               | 1,105                  | 496        | 4,528      |
| Cost of sales                                                                                                          | (680)                  | (137)      | (4,085)    |
| Other income                                                                                                           | —                      | 2          | 7          |
| General and administrative expenses                                                                                    | (170)                  | (154)      | (298)      |
| Operating profit before provisions for impairment losses and (deficit)/surplus on revaluation of investment properties | <u>255</u>             | <u>207</u> | <u>152</u> |

## 7. PROFIT FROM OPERATIONS

Profit from operations is stated after crediting and charging the following:

|                                                                                                                    | The Property Group     |           |          |
|--------------------------------------------------------------------------------------------------------------------|------------------------|-----------|----------|
|                                                                                                                    | 2001                   | 2002      | 2003     |
|                                                                                                                    | <i>In HK\$'million</i> |           |          |
| Crediting:                                                                                                         |                        |           |          |
| Gross rental income                                                                                                | 392                    | 430       | 346      |
| Less: outgoings                                                                                                    | (34)                   | (63)      | (38)     |
| Surplus on revaluation of investment properties ( <i>note 14</i> )                                                 | —                      | 64        | 41       |
| Charging:                                                                                                          |                        |           |          |
| Deficit on revaluation of investment properties ( <i>note 14</i> )                                                 | 105                    | —         | —        |
| Provision for impairment of fixed assets ( <i>note 14</i> )                                                        | 11                     | 4         | —        |
| Depreciation, included in:                                                                                         |                        |           |          |
| — cost of sales                                                                                                    | 19                     | 19        | 18       |
| — general & administrative expenses                                                                                | 2                      | 3         | 5        |
| Staff costs (excluding directors' emoluments ( <i>note 9</i> ) and retirement costs for other staff), included in: |                        |           |          |
| — cost of sales                                                                                                    | —                      | 2         | 44       |
| — general & administrative expenses                                                                                | 23                     | 28        | 42       |
| Retirement costs for other staff                                                                                   |                        |           |          |
| — contributions to defined contribution retirement scheme ( <i>note 20</i> ), included in:                         |                        |           |          |
| — cost of sales                                                                                                    | —                      | —         | 3        |
| — general & administrative expenses                                                                                | 1                      | 2         | 2        |
| Cost of properties sold                                                                                            | 205                    | —         | 3,951    |
| Auditors' remuneration                                                                                             | 1                      | 1         | 1        |
| Operating lease rental                                                                                             |                        |           |          |
| — land and buildings                                                                                               | 1                      | 2         | 2        |
| Provision for doubtful debts                                                                                       | <u>2</u>               | <u>34</u> | <u>2</u> |

## 8. FINANCE COSTS, NET

|                                                      | The Property Group     |                   |                   |
|------------------------------------------------------|------------------------|-------------------|-------------------|
|                                                      | 2001                   | 2002              | 2003              |
|                                                      | <i>In HK\$'million</i> |                   |                   |
| Interest paid/payable for:                           |                        |                   |                   |
| Bank loans wholly repayable within 5 years           | 95                     | —                 | 73                |
| Bank loans not wholly repayable within 5 years       | —                      | 81                | —                 |
| Other loans wholly repayable within 5 years          | —                      | 34                | 97                |
| Other loans not wholly repayable within 5 years      | —                      | —                 | —                 |
|                                                      | <u>95</u>              | <u>115</u>        | <u>170</u>        |
| Interest capitalised in properties under development | <u>(66)</u>            | <u>—</u>          | <u>—</u>          |
| Finance costs                                        | 29                     | 115               | 170               |
| Interest income on bank deposits                     | <u>(5)</u>             | <u>(3)</u>        | <u>(10)</u>       |
| Finance costs, net                                   | <u><u>24</u></u>       | <u><u>112</u></u> | <u><u>160</u></u> |

Finance costs of HK\$170 million (2002: HK\$115 million; 2001: HK\$29 million) include arrangement fees of approximately HK\$10 million (2002: HK\$8 million; 2001: HK\$23 million) incurred in respect of the bank loans of the Property Group.

During the year ended 31 December 2001, the capitalisation rate used to determine the amount of interest eligible for capitalisation was approximately 6.2%.

## 9. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

a. Details of directors' emoluments are set out below:

|                                                             | The Property Group     |                  |                  |
|-------------------------------------------------------------|------------------------|------------------|------------------|
|                                                             | 2001                   | 2002             | 2003             |
|                                                             | <i>In HK\$'million</i> |                  |                  |
| Fees                                                        | —                      | —                | —                |
| Salaries, allowances, other allowances and benefits in kind | 12                     | 16               | 16               |
| Pension scheme contributions                                | 1                      | 2                | 2                |
| Bonuses paid and payable                                    | <u>7</u>               | <u>14</u>        | <u>13</u>        |
| Total                                                       | <u><u>20</u></u>       | <u><u>32</u></u> | <u><u>31</u></u> |

Certain directors are remunerated as executives of the ultimate holding company and the above amounts consist of remuneration borne by the ultimate holding company.

The emoluments of the directors analysed by the number of directors and emolument ranges are as follows:

|                                 | Number of directors<br>The Property Group |          |          |
|---------------------------------|-------------------------------------------|----------|----------|
|                                 | 2001                                      | 2002     | 2003     |
| Up to HK\$1,000,000             | 1                                         | —        | 1        |
| HK\$1,000,001 — HK\$1,500,000   | —                                         | 2        | 1        |
| HK\$2,000,001 — HK\$2,500,000   | —                                         | —        | 2        |
| HK\$3,000,001 — HK\$3,500,000   | 1                                         | —        | —        |
| HK\$5,500,001 — HK\$6,000,000   | 1                                         | —        | 1        |
| HK\$6,500,001 — HK\$7,000,000   | —                                         | 1        | —        |
| HK\$7,000,001 — HK\$7,500,000   | —                                         | —        | 1        |
| HK\$10,000,001 — HK\$10,500,000 | 1                                         | —        | —        |
| HK\$10,500,001 — HK\$11,000,000 | —                                         | —        | 1        |
| HK\$11,000,001 — HK\$11,500,000 | —                                         | 2        | —        |
|                                 | <u>4</u>                                  | <u>5</u> | <u>7</u> |

No directors waived the right to receive emoluments during the Relevant Periods.

b. Details of five highest paid individuals’ emoluments are set out below:

During the Relevant Periods, the five individuals whose emoluments were the highest in the Property Group include three directors, whose emoluments are included in note 9(a) above. The emoluments payable to the remaining two individuals during the Relevant Periods are as follows:

|                                 | Number of individuals<br>The Property Group |          |          |
|---------------------------------|---------------------------------------------|----------|----------|
|                                 | 2001                                        | 2002     | 2003     |
| HK\$3,000,001 — HK\$3,500,000   | 1                                           | —        | —        |
| HK\$3,500,001 — HK\$4,000,000   | 1                                           | —        | 1        |
| HK\$4,500,001 — HK\$5,000,000   | —                                           | 1        | —        |
| HK\$10,000,001 — HK\$10,500,000 | —                                           | —        | 1        |
| HK\$10,500,001 — HK\$11,000,000 | —                                           | 1        | —        |
|                                 | <u>2</u>                                    | <u>2</u> | <u>2</u> |

10. TAXATION

In March 2003, the Government of HKSAR announced an increase in the Profits Tax rate applicable to the Property Group’s operations in Hong Kong from 16 percent to 17.5 percent. Accordingly, Hong Kong Profits Tax has been provided at the rate of 17.5 percent (2002: 16 percent; 2001: 16 percent) on the estimated assessable profits for the year.

Overseas taxation has been calculated on the estimated assessable profits for the year at the rates prevailing in the respective jurisdictions.

|                                                                                                        | <b>The Property Group</b> |             |             |
|--------------------------------------------------------------------------------------------------------|---------------------------|-------------|-------------|
|                                                                                                        | <b>2001</b>               | <b>2002</b> | <b>2003</b> |
|                                                                                                        | <i>In HK\$'million</i>    |             |             |
| The Company and subsidiaries:                                                                          |                           |             |             |
| Hong Kong Profits Tax                                                                                  |                           |             |             |
| — Provision for current year                                                                           | 32                        | 39          | —           |
| Overseas tax                                                                                           |                           |             |             |
| — Provision for current year                                                                           | 48                        | —           | —           |
| Deferred taxation relating to the origination and reversal of temporary differences ( <i>note 23</i> ) | 58                        | 21          | 30          |
|                                                                                                        | <u>138</u>                | <u>60</u>   | <u>30</u>   |

The taxation on the Property Group's profit before taxation differs from the theoretical amount that would arise using the Hong Kong Profits Tax rate of 16 percent for the years ended 31 December 2001 and 2002 and 17.5 percent for the year ended 31 December 2003 as follows:

|                                                                    | <b>The Property Group</b> |             |             |
|--------------------------------------------------------------------|---------------------------|-------------|-------------|
|                                                                    | <b>2001</b>               | <b>2002</b> | <b>2003</b> |
|                                                                    | <i>In HK\$'million</i>    |             |             |
| Profit before taxation                                             | 115                       | 155         | 33          |
| Calculated at Hong Kong Profits Tax rate                           | 18                        | 25          | 6           |
| Income not subject to taxation                                     | (11)                      | (10)        | (7)         |
| Expenses not deductible for taxation purposes                      | 54                        | 6           | 4           |
| Tax losses not recognised                                          | 4                         | 33          | 20          |
| Utilisation of tax losses not previously recognised                | (2)                       | —           | —           |
| Increase in deferred tax asset resulting from increase in tax rate | —                         | —           | (1)         |
| Effect of different tax rate of subsidiaries operating in          |                           |             |             |
| Mainland China                                                     | 14                        | 6           | 8           |
| Reversal of revaluation surplus of properties                      | 61                        | —           | —           |
| Taxation charge                                                    | <u>138</u>                | <u>60</u>   | <u>30</u>   |

# 11. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the Property Group's loss of HK\$23 million for the year ended 31 December 2001 and profit of HK\$95 million and HK\$3 million for the years ended 31 December 2002 and 2003, respectively, and on the one share in issue during the Relevant Periods.

Diluted loss per share amounts for the Relevant Periods has not been shown because there were no dilutive potential ordinary shares during the Relevant Periods.

## 12. DIVIDENDS

No dividend has been paid or declared by Ipswich since its incorporation. Dividends paid represented dividends paid by subsidiaries of Ipswich to their shareholders prior to the Reorganisation.

## 13. LOSS ATTRIBUTABLE TO SHAREHOLDER

Loss of HK\$4,290 (2002: Loss of HK\$12,870; 2001: Nil) attributable to shareholder was dealt with in the financial statements of Ipswich.

## 14. FIXED ASSETS

|                                                                          | Investment<br>properties | The Property Group<br>Land and buildings      Other plant<br>and equipment |      | Total |
|--------------------------------------------------------------------------|--------------------------|----------------------------------------------------------------------------|------|-------|
|                                                                          |                          | <i>In HK\$'million</i>                                                     |      |       |
| <b>Cost or valuation</b>                                                 |                          |                                                                            |      |       |
| At 1 January 2001                                                        | 3,642                    | 406                                                                        | 63   | 4,111 |
| Additions                                                                | —                        | 24                                                                         | 14   | 38    |
| Transfers from properties under development                              | 2,050                    | —                                                                          | —    | 2,050 |
| Transfers                                                                | (240)                    | 209                                                                        | 31   | —     |
| Deficit on revaluation charged to:                                       |                          |                                                                            |      |       |
| — income statement ( <i>note 7</i> )                                     | (105)                    | —                                                                          | —    | (105) |
| — property revaluation reserve                                           | (37)                     | —                                                                          | —    | (37)  |
| At 31 December 2001                                                      | 5,310                    | 639                                                                        | 108  | 6,057 |
| Additions                                                                | —                        | —                                                                          | 2    | 2     |
| Transfers                                                                | 111                      | (95)                                                                       | (16) | —     |
| Surplus on revaluation credited to income<br>statement ( <i>note 7</i> ) | 64                       | —                                                                          | —    | 64    |
| At 31 December 2002                                                      | 5,485                    | 544                                                                        | 94   | 6,123 |
| Additions                                                                | —                        | —                                                                          | 15   | 15    |
| Disposals                                                                | (6)                      | —                                                                          | —    | (6)   |
| Transfers                                                                | (52)                     | 45                                                                         | 7    | —     |
| Surplus on revaluation credited to:                                      |                          |                                                                            |      |       |
| — income statement ( <i>note 7</i> )                                     | 41                       | —                                                                          | —    | 41    |
| — property revaluation reserve                                           | 265                      | —                                                                          | —    | 265   |
| At 31 December 2003                                                      | 5,733                    | 589                                                                        | 116  | 6,438 |

|                                                     |                          | The Property Group    |                              |       |
|-----------------------------------------------------|--------------------------|-----------------------|------------------------------|-------|
|                                                     | Investment<br>properties | Land and<br>buildings | Other plant<br>and equipment | Total |
|                                                     | <i>In HK\$'million</i>   |                       |                              |       |
| <b>Accumulated depreciation and impairment</b>      |                          |                       |                              |       |
| At 1 January 2001                                   | —                        | 38                    | 25                           | 63    |
| Charge for the year ( <i>note 7</i> )               | —                        | 14                    | 7                            | 21    |
| Provision for impairment in value ( <i>note 7</i> ) | —                        | 11                    | —                            | 11    |
| At 31 December 2001                                 | —                        | 63                    | 32                           | 95    |
| Charge for the year ( <i>note 7</i> )               | —                        | 14                    | 8                            | 22    |
| Provision for impairment in value ( <i>note 7</i> ) | —                        | 4                     | —                            | 4     |
| At 31 December 2002                                 | —                        | 81                    | 40                           | 121   |
| Charge for the year ( <i>note 7</i> )               | —                        | 17                    | 6                            | 23    |
| At 31 December 2003                                 | —                        | 98                    | 46                           | 144   |
| <b>Net book value</b>                               |                          |                       |                              |       |
| At 31 December 2003                                 | 5,733                    | 491                   | 70                           | 6,294 |
| At 31 December 2002                                 | 5,485                    | 463                   | 54                           | 6,002 |
| At 31 December 2001                                 | 5,310                    | 576                   | 76                           | 5,962 |

The carrying amount of investment properties and land and buildings of the Property Group is analysed as follows:

|                                    | Investment properties  |       |       | Land and buildings     |      |      |
|------------------------------------|------------------------|-------|-------|------------------------|------|------|
|                                    | 2001                   | 2002  | 2003  | 2001                   | 2002 | 2003 |
|                                    | <i>In HK\$'million</i> |       |       | <i>In HK\$'million</i> |      |      |
| Held in Hong Kong                  |                        |       |       |                        |      |      |
| On long lease (over 50 years)      | 1,418                  | 1,594 | 1,845 | 515                    | 408  | 438  |
| On medium-term lease (10-50 Years) | 7                      | 6     | —     | 21                     | 17   | 16   |
| Held outside Hong Kong             |                        |       |       |                        |      |      |
| On medium-term lease (10-50 years) | 3,885                  | 3,885 | 3,888 | 40                     | 38   | 37   |
|                                    | 5,310                  | 5,485 | 5,733 | 576                    | 463  | 491  |

Investment properties held in Hong Kong were revalued at 31 December 2001 and 2002 by a professionally qualified surveyor of the Group who is an associate member of the Royal Institute of Chartered Surveyors and at 31 December 2003 by independent valuer, CB Richard Ellis Limited. Investment properties held outside Hong Kong, were revalued at 31 December 2001, 2002 and 2003 by an independent valuer, CB Richard Ellis Limited. The basis of valuation for investment properties was open market value.

Approximately HK\$3,888 million (2002: HK\$3,833 million; 2001: HK\$2,703 million) of the investment properties were mortgaged as collateral for banking facilities of the Property Group.

Land and buildings with net book value of approximately HK\$37 million (2002: HK\$58 million; 2001: HK\$21 million) were mortgaged as collateral for banking facilities of the Property Group.

15. PROPERTIES UNDER DEVELOPMENT

|                                                                    | The Property Group     |              |              |
|--------------------------------------------------------------------|------------------------|--------------|--------------|
|                                                                    | 2001                   | 2002         | 2003         |
|                                                                    | <i>In HK\$'million</i> |              |              |
| Properties under development                                       | 2,012                  | 4,334        | 4,055        |
| Less: Properties under development classified<br>as current assets | <u>—</u>               | <u>—</u>     | <u>(286)</u> |
| Total                                                              | <u>2,012</u>           | <u>4,334</u> | <u>3,769</u> |

Pursuant to an agreement dated 17 May 2000 entered into with the Government of HKSAR (“Cyberport Project Agreement”), the Property 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 portion. Pre-sales of residential portion of the Cyberport Project commenced in February 2003.

16. INVESTMENT IN SUBSIDIARY

|                          | Ipswich        |          |          |
|--------------------------|----------------|----------|----------|
|                          | 2001           | 2002     | 2003     |
|                          | <i>In HK\$</i> |          |          |
| Unlisted shares, at cost | <u>2</u>       | <u>2</u> | <u>2</u> |

Dividends from the subsidiaries operating in Mainland China will be declared based on the profits in the statutory financial statements of these subsidiaries. Such profits will be different from the amounts reported under HK GAAP.

As at 31 December 2003, the Property Group had financed the operations of certain of its subsidiaries in Mainland China in the form of shareholders’ loans amounting to approximately US\$198 million, (2002: US\$191 million; 2001: US\$191 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.

17. CURRENT ASSETS AND LIABILITIES

a. Sales proceeds held in stakeholders’ accounts

The balance represents proceeds from sale of residential portion of the Cyberport Project retained in bank accounts opened and maintained by stakeholders which will be transferred to specific bank accounts, which are restricted in use as described in note (b) below, pursuant to certain conditions and procedures as stated in the Cyberport Project Agreement.

b.     **Restricted cash**

Pursuant to the Cyberport Project Agreement, the Property Group has a restricted cash balance of approximately HK\$2,701 million as at 31 December 2003 (2002: Nil; 2001: Nil) held in specific bank accounts. The uses of the funds are specified in the Cyberport Project Agreement.

c.     **Accounts receivable, net**

An aging analysis of trade receivables is set out below:

|                                    | The Property Group     |             |             |
|------------------------------------|------------------------|-------------|-------------|
|                                    | 2001                   | 2002        | 2003        |
|                                    | <i>In HK\$'million</i> |             |             |
| 0-30 days                          | 36                     | 21          | 19          |
| 31-60 days                         | 3                      | 2           | 2           |
| 61-90 days                         | 19                     | —           | —           |
| 91-120 days                        | 1                      | —           | —           |
| Over 120 days                      | <u>6</u>               | <u>38</u>   | <u>29</u>   |
|                                    | 65                     | 61          | 50          |
| Less: Provision for doubtful debts | <u>(2)</u>             | <u>(36)</u> | <u>(28)</u> |
|                                    | <u>63</u>              | <u>25</u>   | <u>22</u>   |

The normal credit period granted by the Property Group ranges up to 30 days from the date of invoice.

d.     **Accounts payable**

An aging analysis of accounts payable is set out below:

|               | The Property Group     |            |            |
|---------------|------------------------|------------|------------|
|               | 2001                   | 2002       | 2003       |
|               | <i>In HK\$'million</i> |            |            |
| 0-30 days     | 33                     | 116        | 93         |
| 31-60 days    | —                      | —          | 3          |
| 61-90 days    | —                      | —          | —          |
| 91-120 days   | 11                     | 24         | 45         |
| Over 120 days | <u>41</u>              | <u>145</u> | <u>231</u> |
|               | <u>85</u>              | <u>285</u> | <u>372</u> |

e. Gross amounts due to customers for contract work

|                                                   | The Property Group     |              |              |
|---------------------------------------------------|------------------------|--------------|--------------|
|                                                   | 2001                   | 2002         | 2003         |
|                                                   | <i>In HK\$'million</i> |              |              |
| Contract costs incurred plus attributable profits |                        |              |              |
| less foreseeable losses                           | 700                    | 801          | 809          |
| Less: estimated value of work performed           | <u>(748)</u>           | <u>(811)</u> | <u>(809)</u> |
|                                                   | <u>(48)</u>            | <u>(10)</u>  | <u>—</u>     |

The total amount of progress billings, included in the estimated value of work performed as at 31 December 2003, is approximately HK\$776 million (2002: HK\$753 million; 2001: HK\$591 million).

18. LONG-TERM LIABILITIES

|                                                                            | The Property Group     |              |              |
|----------------------------------------------------------------------------|------------------------|--------------|--------------|
|                                                                            | 2001                   | 2002         | 2003         |
|                                                                            | <i>In HK\$'million</i> |              |              |
| Bank loans repayable within a period                                       |                        |              |              |
| — not exceeding one year                                                   | 142                    | 76           | 94           |
| — over one year, but not exceeding two years                               | —                      | 94           | 113          |
| — over two years, but not exceeding five years                             | 1,001                  | 396          | 944          |
| — over five years                                                          | <u>—</u>               | <u>636</u>   | <u>—</u>     |
|                                                                            | 1,143                  | 1,202        | 1,151        |
| Less: Amounts repayable within one year included under current liabilities | <u>(142)</u>           | <u>(76)</u>  | <u>(94)</u>  |
|                                                                            | <u>1,001</u>           | <u>1,126</u> | <u>1,057</u> |
| Secured                                                                    | <u>1,143</u>           | <u>1,202</u> | <u>1,151</u> |
| Unsecured                                                                  | <u>—</u>               | <u>—</u>     | <u>—</u>     |

## 19. PROVISIONS

|                                                                       | The Property Group           |        |         |
|-----------------------------------------------------------------------|------------------------------|--------|---------|
|                                                                       | Payment to the<br>Government | Others | Total   |
|                                                                       | <i>In HK\$'million</i>       |        |         |
| At 1 January 2003                                                     | —                            | —      | —       |
| Additional provisions included within properties<br>under development | 3,680                        | —      | 3,680   |
| Additional provisions made                                            | —                            | 20     | 20      |
|                                                                       | 3,680                        | 20     | 3,700   |
| Less: amount classified as current liabilities                        | (1,739)                      | (20)   | (1,759) |
| End of year                                                           | 1,941                        | —      | 1,941   |

Pursuant to the Cyberport Project Agreement, the Government of HKSAR shall be entitled to receive payments based on certain terms and conditions. Provision for payment to the Government of HKSAR is included within properties under development as the amount is considered as a part of the development costs for the Cyberport Project. The provision is based on estimated sales proceeds of residential portion and the estimated development costs of the Cyberport Project. The estimated amount to be paid to the Government of HKSAR during the forthcoming year is classified as current liabilities.

## 20. EMPLOYEE RETIREMENT BENEFITS

## a. Defined benefit retirement schemes

A small number of employees of the Property Group are entitled to join the defined benefit retirement schemes (“DB Schemes”), operated by PCCW, which provide lump sum benefits to employees upon resignation and retirement. The DB Schemes are final salary defined benefit schemes. The scheme assets are administered by independent trustees and are maintained independently of the PCCW Group’s finances.

The defined benefit pension expense recognised in the income statement for the year ended 31 December 2003 was HK\$33,000 (2002: Nil; 2001: Nil). As at 31 December 2003, the defined benefit liability of the Property Group was HK\$4 million (2002: Nil; 2001: Nil).

## b. Defined contribution retirement scheme

Employees of the Property Group are also entitled to join the defined contribution schemes operated by PCCW, including the Mandatory Provident Fund Scheme (“the MPF scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement scheme. The schemes are administered by independent trustees.

Under the defined contribution 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 Property Group.

Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5 percent of the employees’ relevant income, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the scheme vest immediately upon the completion of the service in the relevant service period.

21. SHARE CAPITAL

|                                | Ipswich           |          |          |
|--------------------------------|-------------------|----------|----------|
|                                | As at 31 December |          |          |
|                                | 2001              | 2002     | 2003     |
|                                | In HK\$           |          |          |
| Authorised:                    |                   |          |          |
| 1 Ordinary share of US\$1 each | <u>8</u>          | <u>8</u> | <u>8</u> |
| Issued:                        |                   |          |          |
| 1 Ordinary share of US\$1 each | <u>8</u>          | <u>8</u> | <u>8</u> |

22. DEFICIT

|                                                                     | Property<br>revaluation<br>reserve | Currency<br>translation<br>reserve | Deficit      | Total        |
|---------------------------------------------------------------------|------------------------------------|------------------------------------|--------------|--------------|
|                                                                     | In HK\$'million                    |                                    |              |              |
| THE PROPERTY GROUP                                                  |                                    |                                    |              |              |
| At 1 January 2001                                                   | 112                                | 3                                  | (228)        | (113)        |
| Deficit on revaluation of investment properties,<br>net of taxation | (112)                              | —                                  | —            | (112)        |
| Loss for the year                                                   | —                                  | —                                  | (23)         | (23)         |
| Dividends (note 12)                                                 | <u>—</u>                           | <u>—</u>                           | <u>(9)</u>   | <u>(9)</u>   |
| Attributable to:                                                    |                                    |                                    |              |              |
| — Ipswich and its subsidiaries                                      | <u>—</u>                           | <u>3</u>                           | <u>(260)</u> | <u>(257)</u> |
| At 1 January 2002                                                   | —                                  | 3                                  | (260)        | (257)        |
| Profit for the year                                                 | —                                  | —                                  | 95           | 95           |
| Dividends (note 12)                                                 | <u>—</u>                           | <u>—</u>                           | <u>(473)</u> | <u>(473)</u> |
| Attributable to:                                                    |                                    |                                    |              |              |
| — Ipswich and its subsidiaries                                      | <u>—</u>                           | <u>3</u>                           | <u>(638)</u> | <u>(635)</u> |
| At 1 January 2003                                                   | —                                  | 3                                  | (638)        | (635)        |
| Surplus on revaluation of investment properties,<br>net of taxation | 263                                | —                                  | —            | 263          |
| Translation exchange difference                                     | —                                  | (3)                                | —            | (3)          |
| Profit for the year                                                 | <u>—</u>                           | <u>—</u>                           | <u>3</u>     | <u>3</u>     |
| Attributable to:                                                    |                                    |                                    |              |              |
| — Ipswich and its subsidiaries                                      | <u>263</u>                         | <u>—</u>                           | <u>(635)</u> | <u>(372)</u> |

**23. DEFERRED TAXATION**

- a. Movement in deferred tax liabilities during the Relevant Periods is as follows:

|                                                          | The Property Group           |                           |          |            |
|----------------------------------------------------------|------------------------------|---------------------------|----------|------------|
|                                                          | Accelerated tax depreciation | Revaluation of properties | Others   | Total      |
|                                                          | In HK\$'million              |                           |          |            |
| <b>THE PROPERTY GROUP</b>                                |                              |                           |          |            |
| As at 1 January 2001                                     | 25                           | 267                       | 8        | 300        |
| Charged to income statement during the year<br>(note 10) | 57                           | —                         | 1        | 58         |
| Charged to property revaluation reserve                  | <u>—</u>                     | <u>75</u>                 | <u>—</u> | <u>75</u>  |
| As at 31 December 2001                                   | 82                           | 342                       | 9        | 433        |
| Charged to income statement during the year<br>(note 10) | <u>29</u>                    | <u>—</u>                  | <u>—</u> | <u>29</u>  |
| As at 31 December 2002                                   | 111                          | 342                       | 9        | 462        |
| Charged to income statement during the year<br>(note 10) | 42                           | —                         | —        | 42         |
| Charged to property revaluation reserve                  | <u>—</u>                     | <u>2</u>                  | <u>—</u> | <u>2</u>   |
| As at 31 December 2003                                   | <u>153</u>                   | <u>344</u>                | <u>9</u> | <u>506</u> |

- b. Deferred income tax assets are recognised for tax loss carry forward to the extent that realisation of the related tax benefit through utilisation against future taxable profits is probable. The Property Group has not recognised any deferred tax assets during the year ended 31 December 2001. Movement in deferred tax assets during the year ended 31 December 2002 and 2003 is as follows:

|                                                        | <b>The Property Group</b> |
|--------------------------------------------------------|---------------------------|
|                                                        | <b>Tax Losses</b>         |
|                                                        | <i>In HK\$'million</i>    |
| As at 1 January 2002                                   | —                         |
| Credited to income statement during the year (note 10) | <u>8</u>                  |
| As at 31 December 2002                                 | 8                         |
| Credited to income statement during the year (note 10) | <u>12</u>                 |
| As at 31 December 2003                                 | <u>20</u>                 |

- c. The Property Group has unutilised estimated tax losses of HK\$192 million (2002: HK\$150 million; 2001: HK\$32 million) to carry forward for deduction against future taxable income. Estimated tax losses of HK\$181 million (2002: HK\$97 million; 2001: Nil) will expire within four to five years from 31 December 2003. The remaining portion of the tax losses mainly related to Hong Kong companies and can be carried forward indefinitely.

## 24. NOTES TO THE COMBINED CASH FLOW STATEMENT

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

|                                                                                 | The Property Group     |                |              |
|---------------------------------------------------------------------------------|------------------------|----------------|--------------|
|                                                                                 | 2001                   | 2002           | 2003         |
|                                                                                 | <i>In HK\$'million</i> |                |              |
| Profit before taxation                                                          | 115                    | 155            | 33           |
| Adjustment for:                                                                 |                        |                |              |
| Interest income                                                                 | (5)                    | (3)            | (10)         |
| Interest expense                                                                | 6                      | 107            | 160          |
| Finance charges                                                                 | 23                     | 8              | 10           |
| Depreciation                                                                    | 21                     | 22             | 23           |
| Provision for impairment of fixed assets                                        | 11                     | 4              | —            |
| Provision for doubtful debts                                                    | 2                      | 34             | 2            |
| Deficit/(Surplus) on revaluation of investment properties                       | 105                    | (64)           | (41)         |
| <b>OPERATING PROFIT BEFORE CHANGES<br/>IN WORKING CAPITAL</b>                   | 278                    | 263            | 177          |
| Decrease/(Increase) in operating assets:                                        |                        |                |              |
| — properties under development                                                  | (1,260)                | (2,204)        | 286          |
| — accounts receivable                                                           | 62                     | 4              | 1            |
| — prepayments, deposits and other current assets                                | (116)                  | 113            | (20)         |
| — sales proceeds held in stakeholders' accounts                                 | —                      | —              | (2,402)      |
| — restricted cash                                                               | —                      | —              | (2,701)      |
| Increase/(Decrease) in operating liabilities:                                   |                        |                |              |
| — accruals, accounts payable, provisions, other payables<br>and deferred income | 36                     | (142)          | 4,265        |
| — gross amounts due to customers for contract work                              | 48                     | (38)           | (10)         |
| — amounts due to related companies                                              | 1                      | (6)            | 2            |
| — other long-term liabilities                                                   | 51                     | 36             | (56)         |
| <b>CASH USED IN OPERATIONS</b>                                                  | (900)                  | (1,974)        | (458)        |
| Interest paid                                                                   | (76)                   | (71)           | (66)         |
| Interest received                                                               | 5                      | 3              | 10           |
| Tax paid                                                                        |                        |                |              |
| — Hong Kong Profits Tax paid                                                    | (56)                   | (28)           | (14)         |
| — Overseas tax paid                                                             | (8)                    | (6)            | (17)         |
| <b>NET CASH OUTFLOW FROM OPERATING<br/>ACTIVITIES</b>                           | <u>(1,035)</u>         | <u>(2,076)</u> | <u>(545)</u> |

## b. Analysis of cash and cash equivalents

|                                             | The Property Group     |            |            |
|---------------------------------------------|------------------------|------------|------------|
|                                             | 2001                   | 2002       | 2003       |
|                                             | <i>In HK\$'million</i> |            |            |
| Cash and bank balances                      | 170                    | 337        | 2,825      |
| Restricted cash                             | —                      | —          | (2,701)    |
| Cash and cash equivalents as at 31 December | <u>170</u>             | <u>337</u> | <u>124</u> |

## 25. COMMITMENTS

## a. Capital

|                                   | The Property Group     |               |              |
|-----------------------------------|------------------------|---------------|--------------|
|                                   | 2001                   | 2002          | 2003         |
|                                   | <i>In HK\$'million</i> |               |              |
| Authorised and contracted for     | 2,862                  | 4,020         | 2,741        |
| Authorised but not contracted for | <u>10,987</u>          | <u>7,222</u>  | <u>3,084</u> |
|                                   | <u>13,849</u>          | <u>11,242</u> | <u>5,825</u> |

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

|                                        | The Property Group     |               |              |
|----------------------------------------|------------------------|---------------|--------------|
|                                        | 2001                   | 2002          | 2003         |
|                                        | <i>In HK\$'million</i> |               |              |
| Investment properties                  | —                      | —             | 82           |
| Property development ( <i>note i</i> ) | 13,849                 | 11,241        | 5,743        |
| Acquisition of fixed assets            | <u>—</u>               | <u>1</u>      | <u>—</u>     |
|                                        | <u>13,849</u>          | <u>11,242</u> | <u>5,825</u> |

- i. The capital commitment as disclosed above represented management's best estimate of total construction costs for the Cyberport Project.

b. Operating leases

The total future minimum lease payments under non-cancellable operating leases are payable as at each period of 31 December of the Relevant Periods as follows:

Land and buildings

|                                 | The Property Group |      |      |
|---------------------------------|--------------------|------|------|
|                                 | 2001               | 2002 | 2003 |
|                                 | In HK\$'million    |      |      |
| Within 1 year                   | —                  | 4    | 4    |
| After 1 year but within 5 years | —                  | 7    | 3    |
|                                 | —                  | 11   | 7    |

The total future minimum lease receipts under non-cancellable operating leases are receivable as at 31 December of the Relevant Periods as follows:

Land and buildings

|                                 | The Property Group |      |      |
|---------------------------------|--------------------|------|------|
|                                 | 2001               | 2002 | 2003 |
|                                 | In HK\$'million    |      |      |
| Within 1 year                   | 243                | 283  | 254  |
| After 1 year but within 5 years | 488                | 407  | 420  |
| After 5 years                   | 241                | 193  | 146  |
|                                 | 972                | 883  | 820  |

26. CONTINGENT LIABILITIES

|                       | The Property Group |      |      | Ipswich         |      |      |
|-----------------------|--------------------|------|------|-----------------|------|------|
|                       | 2001               | 2002 | 2003 | 2001            | 2002 | 2003 |
|                       | In HK\$'million    |      |      | In HK\$'million |      |      |
| Performance guarantee | 8                  | 8    | 1    | —               | —    | —    |

**27. BANKING FACILITIES**

Aggregate banking facilities of the Property Group as at 31 December 2003 were HK\$1,147 million (2002: HK\$1,222 million; 2001: HK\$1,137 million) of which the unused facilities amounted to Nil (2002: HK\$26 million; 2001: Nil).

Security pledged for certain banking facilities includes:

|                       | <b>The Property Group</b> |              |              |
|-----------------------|---------------------------|--------------|--------------|
|                       | <b>2001</b>               | <b>2002</b>  | <b>2003</b>  |
|                       | <i>In HK\$'million</i>    |              |              |
| Investment properties | 2,703                     | 3,833        | 3,888        |
| Land and buildings    | <u>21</u>                 | <u>58</u>    | <u>37</u>    |
|                       | <u>2,724</u>              | <u>3,891</u> | <u>3,925</u> |

- a. As at 31 December 2002, Cyber-Port Limited, an indirect wholly-owned subsidiary of Ipswich, had been granted a standby letter of credit facility amounting to approximately HK\$720 million (2001: HK\$1,405 million) from a bank for the purpose of providing a cashflow guarantee covering an amount equal to the 6-month forecast net cashflow requirements of the Cyberport Project, defined in and pursuant to the terms of the Cyberport Project Agreement. Such facility was secured by a bank fixed deposit of approximately HK\$722 million (2001: HK\$1,405 million) placed by PCCW. There was no such standby letter of credit facility as at 31 December 2003.
- b. Gain Score Limited a subsidiary of Ipswich, has pledged its investment in a subsidiary of approximately HK\$312 million as at 31 December 2003 (2002: HK\$312 million; 2001: Nil) to secure certain banking facility.

**III SUBSEQUENT EVENTS**

- a. On 5 March 2004, PCCW and the Company (then known as Dong Fang Gas Holdings Limited) (“DFG”) signed a Sale and Purchase Agreement under which PCCW agreed to transfer its holdings in Ipswich and its subsidiary companies and certain loans owed to it by the subsidiary companies to DFG at a consideration of HK\$6,557 million. Prior to completion of the Acquisition, Ipswich and its subsidiary companies will undergo the Reorganisation whereby Ipswich will become the holding company of the Property Group.
- b. On 1 March 2004, Beijing Jing Wei House and Land Estate Development Co., Ltd., prepaid the outstanding principal amount of RMB1,220 million (approximately HK\$1,151 million) under the RMB1,300 million loan facility using funds advanced by PCCW.

**IV SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by Ipswich or its subsidiary companies in respect of any period subsequent to 31 December 2003.

**V INDEBTEDNESS**

As at the close of business on 30 November 2004, being the latest practicable date for the purpose of ascertaining information contained in this indebtedness statement prior to the printing of this circular, the Group had outstanding long-term borrowings of approximately HK\$7,524 million from PCCW that is comprised of the follows:

- The Cyberport Loan of approximately HK\$3,907 million is interest free and repayable by the pre-sale proceeds of Bel-Air development;
- The convertible note (tranche A) for HK\$ 1,170 million is interest free;
- The convertible note (tranche B) for HK\$2,420 million carries a fixed interest rate of one percent per annum and will be redeemed at 120% of the then outstanding principal amount; and
- The redemption premium of the convertible note accrued from the period from 10 May 2004 to 30 November 2004 was approximately HK\$27 million.

Terms of the Cyberport Loan and the convertible notes have been detailed in the April 2004 Circular.

At the close of business on 30 November 2004, the Group had granted a corporate guarantee to The Government of the HKSAR for certain entrusted works in relation to engineering infrastructure for the Cyberport development for an amount of approximately HK\$0.8 million.

Save as disclosed above, the Group did not have as at close of business on 30 November 2004, any outstanding bank loans, overdrafts, mortgages, charges, debentures and other loan capital, or similar indebtedness, finance leases or hire purchase commitments, guarantees or other material contingent liabilities.

The Directors are not aware of any material adverse changes in the Group's indebtedness position and contingent liabilities since 30 November 2004.

**VI WORKING CAPITAL**

The Remaining Group intends to use the net proceeds from the Disposal as general working capital and to improve the overall financing flexibility of the Remaining Group. The Company does not at present have any specific investment projects which require the usage of the proceeds. As at 30 November 2004, the Group's cash and cash equivalent balances, amounted to approximately HK\$741 million.

The Directors are of the opinion that, in the absence of unforeseen circumstances and after taking into account the Remaining Group's internal resources and the proceeds from the Disposal, the Remaining Group has sufficient working capital for its requirements.

*The following is the text of a letter, summary of values and valuation certificate from CB Richard Ellis Limited, an independent valuer, in connection with their valuation as at 30 November 2004 of the Property, prepared for the purpose of incorporation in this circular:*

CB Richard Ellis Limited

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地產代理（公司）牌照號碼  
Estate Agent's Licence No: C-004065

30 December 2004

The Directors  
Pacific Century Premium Developments Limited  
Units 701-705, Level 7,  
Cyberport 3  
100 Cyberport Road  
Hong Kong

Dear Sirs,

**Re: Property Valuation of PCCW Tower, Taikoo Place  
No. 979 King’s Road, Quarry Bay, Hong Kong**

We refer to your instruction for us to carry out a valuation of the captioned property interest held by a subsidiary of Pacific Century Premium Developments Limited (which together with its subsidiaries are hereinafter known as the “Group”). We confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the open market value of the property interest as at 30 November 2004 (“the date of valuation”).

Unless otherwise stated, our valuation is prepared in accordance with the “Hong Kong Guidance Notes on the Valuation of Property Assets” published by The Hong Kong Institute of Surveyors (“HKIS”). If the Guidance Notes are silent on subjects requiring guidance, we refer to the “Appraisal and Valuation Manual” published by The Royal Institution of Chartered Surveyors (“RICS”) subject to variation to meet local established law, custom, practice and market conditions.

Our valuation is made on the basis of Open Market Value, defined by the HKIS as “the best price at which the sale of an interest in the property would have been completed unconditionally for cash consideration on the date of valuation assuming:

- a) a willing seller;
- b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;
- c) that the state of the market, levels of value and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

We have valued the property interest by making reference to comparable sales evidences as available in the market. Our valuation has been made on the assumption that the owner sells the property interest on the open market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the value of the property.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interest nor for any expenses or taxation that may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature that could affect its value.

We have relied to a considerable extent on the information provided by the Group. We have no reason to doubt the truth and accuracy of the information which is material to valuation provided to us by the Group. We were also advised by the Group that no material facts have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view and have no reason to suspect that material information has been withheld.

We have accepted advice given to us on matters such as interest attributable to the Group, tenures, planning approvals, statutory notices, floor areas, tenancies and all other material information supplied by the Group. All documents and leases have been used for reference only and all dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us and are therefore only approximations. No on-site measurements have been taken.

We have caused search to be made at the Land Registry. However, we have not examined the original documents to verify ownership or to ascertain the existence of any lease amendments that may not appear on the copies handed to us. All documents have been used for reference only.

We have inspected the property to such extent as for the purpose of this valuation. In the course of our inspection, we did not notice any serious defects. However, we have not carried out any structural survey nor were any tests made on the services. Therefore, we are not able to report whether the property is free of rot, infestation or any other structural defects.

Our valuation certificate is attached hereto.

Yours faithfully,  
For and on behalf of  
**CB Richard Ellis Limited**  
**Kam-hung Yu**  
BSc (Hons) MSc (e-Commerce)  
FHKIS FRICS RPS(GP) FHIREA  
*Executive Director*  
*Valuation & Advisory Services*

*Encl.*

*Note:* Mr Yu is the Chairman for General Practice Division of the Hong Kong Institute of Surveyors. He is a Registered Professional Surveyor (General Practice), a fellow of Royal Institution of Chartered Surveyors, a fellow of the Hong Kong Institute of Surveyors and a fellow of the Hong Kong Institute of Real Asia Administration. He has over 23 years' valuation experience in Hong Kong.

| VALUATION CERTIFICATE                                                                                                 |                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                                           |                                                        |
|-----------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|
| Property                                                                                                              | Description and tenure                                                                                                                                                                                                                                                                                      | Details of occupancy                                                                                                                                                                                                                                                      | Capital value in existing state as at 30 November 2004 |
| PCCW Tower, Taikoo Place, No. 979 King’s Road, Quarry Bay, Hong Kong                                                  | The property comprises a 43-storey Grade A office building plus a 4-level basement carport accommodating 216 car parking spaces. The building was completed in 1994.                                                                                                                                        | Some 35% are currently leased to PCCW Services Limited whereas some 64% of the office spaces have been leased to various other third parties. The remaining office spaces are vacant.                                                                                     | HK\$2,800,000,000                                      |
| The property is registered as the Sub-lease of the Section S and the Remaining Portion of Quarry Bay Marine Lot No. 1 | <p>The gross floor area of the property excluding the carport is approximately 57,613.60 sq.m. (620,147 sq.ft.).</p> <p>The property is held under a lease granted by TaiKoo Place Holdings Limited for a term of 999 years less the last three days from 2 February 1882 at an annum rent of HK\$1.00.</p> | <p>The monthly rental income is about HK\$9,920,075 exclusive of management fees, rates and air-conditioning charges. The latest lease expiry date of the leases is 30 April 2008.</p> <p>109 car parking spaces were licensed at a total monthly fee of HK\$313,440.</p> |                                                        |

Notes:

- The registered owner of the property is TaiKoo Place Holdings Limited (“the Owner”, formerly known as Parker Valley Estates Limited), who let the property to Monance Limited at a peppercorn rent (“the Sub-lease”). Pursuant to an Assignment of Lease dated 6 September 2002, Monance Limited assigned its leasehold interest to Partner Link Investments Limited.
- We were advised that Partner Link Investments Limited is an indirect wholly-owned subsidiary of Pacific Century Premium Developments Limited.
- According to the Sub-lease, (i) the lessee is not entitled to assign only parts of its interest, and (ii) in the event that the lessee wishes to assign the whole of the Sub-lease to a person who is not within the Group or in the event that the lessee wishes to underlet the whole (but not part) of the property for a term of more than 12 years but expiring not later than 30 June 2047 to a person who is not within the Group, the lessee shall serve a notice on the Owner of its intention. If the Owner wishes to acquire the lessee’s interest, it must respond to the aforesaid notice within (a) 30 days in the event that there is a bona fide offer to purchase the lessee’s entire interest under the Sub-lease or (b) 14 days in the event that the lessee wishes to sell such interest in other circumstances or to underlet such interest. If no such response is received, the lessee will be entitled to freely assign the Sub-lease or underlet the property. Any underlettings of any part of the property for a term of not more than 12 years to any person not within the Group would also require the Owner’s consent.
- The property lies within an area zoned for “Sub-Area (b)” in “Comprehensive Development Area” uses under the relevant outline zoning plan.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained herein the omission of which would make any statement herein misleading.

2. DIRECTORS’ AND CHIEF EXECUTIVE’S DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein (“the Register”); or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange were as follows:

1. The Company

None of the Directors or chief executive of the Company or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company as at the Latest Practicable Date.

2. Associated Corporations of the Company

A. Interests in PCCW

The table below sets out the aggregate long positions in the shares and underlying shares of PCCW (the ultimate holding company of the Company) of the Directors and the chief executive of the Company as at the Latest Practicable Date.

| Name of director/<br>chief executive | Number of ordinary shares |                     |                          |                              | Number of<br>underlying<br>shares held<br>under equity<br>derivatives | Total         | Percentage<br>of issued<br>share<br>capital |
|--------------------------------------|---------------------------|---------------------|--------------------------|------------------------------|-----------------------------------------------------------------------|---------------|---------------------------------------------|
|                                      | Personal<br>interests     | Family<br>interests | Corporate<br>interests   | Other<br>interests           |                                                                       |               |                                             |
| Li Tzar Kai, Richard                 | —                         | —                   | 4,709,600<br>(Note 1(a)) | 1,746,122,668<br>(Note 1(b)) | 3,490,018<br>(Note 1(c))                                              | 1,754,322,286 | 32.65%                                      |
| Yuen Tin Fan, Francis                | —                         | —                   | —                        | —                            | 17,068,000<br>(Note 2)                                                | 17,068,000    | 0.32%                                       |

| Name of director/<br>chief executive | Number of ordinary shares     |                           |                        |                    | Number of<br>underlying<br>shares held<br>under equity<br>derivatives | Total      | Percentage<br>of issued<br>share<br>capital |
|--------------------------------------|-------------------------------|---------------------------|------------------------|--------------------|-----------------------------------------------------------------------|------------|---------------------------------------------|
|                                      | Personal<br>interests         | Family<br>interests       | Corporate<br>interests | Other<br>interests |                                                                       |            |                                             |
| Lee Chi Hong, Robert                 | 992,600<br><i>(Note 3(a))</i> | 511<br><i>(Note 3(b))</i> | —                      | —                  | 5,000,000<br><i>(Note 2)</i>                                          | 5,993,111  | 0.11%                                       |
| Alexander Anthony<br>Arena           | 760,000                       | —                         | —                      | —                  | 12,800,200<br><i>(Note 4)</i>                                         | 13,560,200 | 0.25%                                       |
| Hubert Chak                          | —                             | —                         | —                      | —                  | 840,000<br><i>(Note 2)</i>                                            | 840,000    | 0.02%                                       |

Notes:

1. (a) These interests were held by Pacific Century Diversified Limited (“PCD”), a wholly-owned subsidiary of Chiltonlink Limited, which was 100 percent owned by Li Tzar Kai, Richard.
- (b) These interests represented:

(i) a deemed interest in 36,726,857 shares of PCCW held by Yue Shun Limited, a subsidiary of Hutchison Whampoa Limited (“HWL”). Cheung Kong (Holdings) Limited (“Cheung Kong”) through certain subsidiaries held more than one-third of the issued share capital of HWL. Li Tzar Kai, Richard was a beneficiary of certain discretionary trusts which held interests in Cheung Kong and HWL. Li Tzar Kai, Richard was also interested in one-third of the issued share capital of two companies, which owned all the shares in the trustee companies which acted as trustees of such discretionary trusts. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 36,726,857 shares of PCCW held by Yue Shun Limited;

(ii) a deemed interest in 20,354,286 shares of PCCW held by Pacific Century Group Holdings Limited (“PCGH”). Li Tzar Kai, Richard was the founder of certain trusts which held 100 percent interests in PCGH. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 20,354,286 shares of PCCW;

(iii) a deemed interest in 1,526,094,301 shares of PCCW held by Pacific Century Regional Developments Limited (“PCRD”), a company in which PCGH had, through certain wholly-owned subsidiaries including Anglang Investments Limited, Pacific Century Group (Cayman Islands) Limited, Pacific Century International Limited and Borsington Limited, an aggregate 75.33 percent interest. Li Tzar Kai, Richard was the founder of certain trusts which held 100 percent interests in PCGH. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 1,526,094,301 shares of PCCW; and

(iv) a deemed interest in 162,947,224 shares of PCCW held by a collective investment scheme in which PCD (a corporation 100 percent controlled by Li Tzar Kai, Richard - see above) was a holder.

- (c) This number represented interests under listed equity derivatives arising through corporations controlled by PCGH, in which Li Tzar Kai, Richard was deemed interested as the founder of certain trusts which held 100 percent of PCGH, and comprised:
- (i) an interest in 679,000 underlying shares held by PCRD in the form of 67,900 American depositary receipts (“ADRs”), each representing 10 shares of PCCW; and

(ii) an interest in respect of 2,811,018 underlying shares arising as a result of the holding of an aggregate of US\$14,000,000 of convertible bonds issued by a wholly-owned subsidiary of PCCW which were held by PCGH and a wholly-owned subsidiary of Pacific Century Insurance Holdings Limited (“PCIHL”) (a company in which PCRD had a 45.14 percent interest) and were convertible into 2,811,018 shares of PCCW.
2. These interests represented the interests in underlying shares in respect of share options granted by PCCW to the Directors and the chief executive as beneficial owners as at the Latest Practicable Date, details of which are set out as follows:

| Name of director/<br>chief executive | Date of grant | Vesting<br>period           | Exercisable<br>period       | Exercise<br>price<br>HK\$ | Number<br>of options<br>outstanding |
|--------------------------------------|---------------|-----------------------------|-----------------------------|---------------------------|-------------------------------------|
| Yuen Tin Fan, Francis                | 08.28.1999    | 08.17.2000 to<br>08.17.2004 | 08.17.2003 to<br>08.17.2009 | 11.78                     | 2,134,000                           |
|                                      | 08.26.2000    | 08.26.2001 to<br>08.26.2005 | 08.26.2001 to<br>08.26.2010 | 60.12                     | 3,200,000                           |
|                                      | 02.20.2001    | 08.26.2001 to<br>08.26.2005 | 08.26.2001 to<br>01.22.2011 | 16.84                     | 3,200,000                           |
|                                      | 07.25.2003    | 07.25.2004 to<br>07.25.2006 | 07.25.2004 to<br>07.23.2013 | 4.35                      | 8,534,000                           |
| Lee Chi Hong, Robert                 | 07.25.2003    | 07.25.2004 to<br>07.25.2006 | 07.25.2004 to<br>07.23.2013 | 4.35                      | 5,000,000                           |
| Alexander Anthony Arena              | 08.28.1999    | 08.17.2000 to<br>08.17.2004 | 08.17.2000 to<br>08.17.2009 | 11.78                     | 3,200,000                           |
|                                      | 08.26.2000    | 08.26.2001 to<br>08.26.2005 | 08.26.2001 to<br>08.26.2010 | 60.12                     | 1,600,000                           |
|                                      | 02.20.2001    | 08.26.2001 to<br>08.26.2005 | 08.26.2001 to<br>01.22.2011 | 16.84                     | 1,600,000                           |
|                                      | 07.25.2003    | 07.25.2004 to<br>07.25.2006 | 07.25.2004 to<br>07.23.2013 | 4.35                      | 6,400,000                           |
| Hubert Chak                          | 11.06.1999    | 10.25.2000 to<br>10.25.2002 | 10.25.2000 to<br>10.25.2009 | 22.76                     | 300,000                             |
|                                      | 02.20.2001    | 01.22.2002 to<br>01.22.2006 | 01.22.2002 to<br>01.22.2011 | 16.84                     | 300,000                             |
|                                      | 07.25.2003    | 07.25.2004 to<br>07.25.2006 | 07.25.2004 to<br>07.23.2013 | 4.35                      | 240,000                             |

*Note: All dates are shown month/day/year*

3. (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.
4. These interests represented Alexander Anthony Arena's beneficial interest in: (i) 200 underlying shares held in the form of 20 ADRs which constituted listed equity derivatives; and (ii) 12,800,000 underlying shares in respect of share options granted by PCCW to Alexander Anthony Arena as beneficial owner, details of which are set out in Note 2 above.

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

Li Tzar Kai, Richard was deemed under the SFO as at the Latest Practicable Date to have short positions held pursuant to equity derivatives in respect of an aggregate of 325,498,469 underlying shares, representing 6.06 percent of the total issued share capital of PCCW. Details of the short positions are as follows:

- (a) a short position in respect of 91,764,705 underlying shares in PCCW (such shares being beneficially held by PCRD) which arose under certain unlisted physically settled equity derivatives issued by PCRD pursuant to which the derivative holder has the right to call for the delivery of 91,764,705 shares in PCCW. Li Tzar Kai, Richard's deemed short position arose as the founder of certain trusts which held 100 percent of PCGH of which PCRD is a controlled corporation under the SFO;
- (b) a short position in respect of 229,411,764 underlying shares in PCCW (such shares being beneficially held by PCRD) which arose under certain unlisted physically settled equity derivatives issued by PCRD pursuant to which the derivative holders have the right to call for the delivery of 229,411,764 shares in PCCW. Li Tzar Kai, Richard's deemed short position arose as the founder of certain trusts which held 100 percent of PCGH of which PCRD is a controlled corporation under the SFO; and
- (c) through PCD (a corporation 100 percent controlled by Li Tzar Kai, Richard - see above) a short position in respect of 4,322,000 underlying shares in PCCW which arose under an agreement entered into with So Chak Kwong, Jack, a director of PCCW, such interest constituted, for the purposes of the SFO, a short position of a corporation controlled by Li Tzar Kai, Richard under an unlisted physically settled equity derivative pursuant to which such shares in PCCW will be transferred to So Chak Kwong, Jack in two equal annual installments commencing from the second anniversary of his appointment with PCCW.

**C. *Interests in PCCW Capital Limited***

PCGH and a subsidiary of PCIHL held, respectively, US\$4,000,000 and US\$10,000,000 of convertible bonds issued by PCCW Capital Limited, a wholly-owned subsidiary of PCCW and an associated corporation of the Company. Accordingly, Li Tzar Kai, Richard was deemed to have an aggregate interest in US\$14,000,000 of convertible bonds issued by PCCW Capital Limited by virtue of being the founder of certain trusts which held 100 percent of PCGH.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor chief executive of the Company or their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the Register; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS’ INTERESTS AND SHORT POSITIONS IN SHARES

As at the Latest Practicable Date, so far as is known to the Directors, the following persons or companies (other than a Director or chief executive of the Company) had an interest or short position in the Shares or underlying Shares of which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

A. Interests in the Company

| Name of shareholder | Number of Shares/<br>underlying Shares held | Percentage of issued<br>share capital |
|---------------------|---------------------------------------------|---------------------------------------|
| PCCW                | 2,153,555,555 ( <i>Note</i> )               | 114.40%                               |

*Note:*

These interests represented:

- (i) an interest in 961,333,333 Shares held by Asian Motion; and
- (ii) an interest in respect of 1,192,222,222 underlying Shares held by PCCW arising as a result of the holding of an aggregate of HK\$3,590 million convertible notes issued by the Company comprising:
  - HK\$1,170 million of Tranche A Note which is convertible into 520,000,000 Shares; and
  - HK\$2,420 million of Tranche B Note which is convertible into 672,222,222 Shares.

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

As at the Latest Practicable Date, the Company had not been notified of any short positions being held by any substantial shareholder in the Shares or underlying Shares.

C. Interests in other members of the Group

| Name of non-wholly owned subsidiaries of the Company | Name of registered substantial shareholder(s) | Number of shares held by substantial shareholder(s) | Percentage of holding |
|------------------------------------------------------|-----------------------------------------------|-----------------------------------------------------|-----------------------|
| Beijing Continental Gas Co. Ltd.                     | 北京市北液發燃氣經營公司                                  | N/A                                                 | 10%                   |
|                                                      | 北京市液化石油氣設備工程公司                                |                                                     | 10%                   |
|                                                      | Max Matrix Development Limited                |                                                     | 10%                   |
| Chongqing Golden Unity Ceramics Co., Ltd.            | 重慶第六棉紡織廠                                      | N/A                                                 | 30%                   |
| Top Power Holdings Limited                           | Realux Limited                                | 27 ordinary shares                                  | 27%                   |
| Companion-First Top Limited                          | Danta Enterprises (International) Corporation | 250,000 ordinary shares                             | 25%                   |
| King Unity Investments Limited                       | Chen Ming Yin, Tiffany                        | 2,600 ordinary shares                               | 13%                   |
| Shanghai Companion Building Material Co., Ltd.       | 上海莘吳實業總公司                                     | N/A                                                 | 10%                   |
| Wenzhou Xishan United Ceramics Co. Ltd.              | 溫州西山面磚廠                                       | N/A                                                 | 26.5%                 |

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors, no other person (other than a Director or the chief executive of the Company) had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

4. DIRECTORS’ SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which will not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

5. DIRECTORS’ INTERESTS IN ASSETS, CONTRACTS AND COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors has any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2004, being the date to which the latest audited consolidated financial statements of the Company were made up.

None of the Directors was materially interested in any contract or arrangement entered into by any member of the Group and subsisting at the Latest Practicable Date, which was significant in relation to the business of the Group as a whole.

As at the Latest Practicable Date, the following are interests of the Directors in businesses apart from the Group’s business, which compete or are likely to compete, either directly or indirectly, with the Group’s business pursuant to the Listing Rules:

| Names of investee     |                                                                                           |                                                                                                                                       |                                                                                                                         |
|-----------------------|-------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|
| Name of Director      | companies                                                                                 | Nature of business                                                                                                                    | Nature of interests                                                                                                     |
| Li Tzar Kai, Richard  | Cheung Kong (Holdings) Limited (“Cheung Kong”) and its subsidiaries (“Cheung Kong Group”) | Property development and investment, hotel and serviced suite operation, property and project management and investment in securities | Deemed interests in Cheung Kong ( <i>note 1</i> )                                                                       |
|                       | Hutchison Whampoa Limited (“HWL”) and its subsidiaries (“Hutchison Group”)                | Ports and related services, telecommunications, property and hotels, retail and manufacturing and energy and infrastructure           | Certain personal and deemed interests in HWL ( <i>note 2</i> )                                                          |
| Yuen Tin Fan, Francis | Kee Shing (Holdings) Limited (“KSH”) and its subsidiaries                                 | Sale of chemicals and metals, property and security investment                                                                        | Non-executive director and deemed interests of 22.84% of KSH through a controlled corporation and as founder of a trust |

Notes:

1.
- Certain business of the Cheung Kong Group may compete with certain aspects of the business of the Group. Li Tzar Kai, Richard is one of the discretionary beneficiaries of certain discretionary trusts which hold units in unit trusts which in turn are interested in certain shares of Cheung Kong. Li Tzar Kai, Richard holds one-third of the issued share capitals of two companies, which own all the shares in the trustee companies which act as trustees of such discretionary trusts and unit trusts. These trustee companies perform their functions as trustees independently without any reference to Li Tzar Kai, Richard. Notwithstanding the above, his being a discretionary beneficiary and that the trustee companies act independently of him, the Company considers that Li Tzar Kai, Richard is not able to exert control or influence over the Cheung Kong Group.

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

In addition, Li Tzar Kai, Richard, Yuen Tin Fan, Francis, Alexander Anthony Arena, and Lee Chi Hong, Robert are directors of certain private companies (the “Private Companies”), which are engaged in property development and investment in Hong Kong (a development called Gough Hill) and/or Japan (investment in certain residential properties and commercial building).

Further, Li Tzar Kai, Richard and Alexander Anthony Arena are directors of PCRD. PCRD acts as an investment holding company of, among others, interests in PCCW and certain property development interests in Singapore and India.

The business interests in Hong Kong for the Private Companies are not significant when compared to the business of the Group, it is unlikely that the excluded businesses may compete with the property business of the Group. For the excluded businesses in Japan, Singapore and India, they are unlikely to be competing with the existing investment and development property portfolio of the Group for the time being.

Li Tzar Kai, Richard has a controlling interest in certain Private Companies. Further, he is or may be regarded as interested in PCRD and PCGH due to the interests as disclosed in item 2(A) under the section headed “Directors’ and Chief Executive’s Disclosure of Interests” in this appendix.

As those companies disclosed above which might have competing businesses with the Group were involved in the development and/or investment of properties of different types and/or in different locations, the Group has been operating independently of, and at arm’s length from, the businesses of those companies.

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

## 6. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance and there was no litigation, arbitration or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group.

7. CONSENTS

PricewaterhouseCoopers and CB Richard Ellis Limited have given and have not withdrawn their respective written consents to the inclusion of their respective reports in this circular, letters and/or valuation certificates (if any), as the case may be, and references to their names in the form and context in which they respectively appear.

8. QUALIFICATIONS OF EXPERTS

The following are the qualifications of the experts who have given opinions or advice contained in this circular:

| Names                    | Qualifications               |
|--------------------------|------------------------------|
| PricewaterhouseCoopers   | Certified Public Accountants |
| CB Richard Ellis Limited | Property valuer              |

As at the Latest Practicable Date, neither PricewaterhouseCoopers nor CB Richard Ellis Limited has any shareholding interest in any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, neither PricewaterhouseCoopers nor CB Richard Ellis Limited has any direct or indirect interest in any assets which have, since 31 March 2004 (being the date to which the latest audited consolidated financial statements of the Company were made up), been acquired or disposed of by or leased to, or proposed to be acquired or disposed of by or leased to, any member of the Group.

9. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business of the Group, have been entered into by the members of the Group within the two years immediately preceding the Latest Practicable Date and are, or may be, material:

- (a) an agreement dated 1 June 2003 between Classic Million Limited as vendor, Dong Fang Gas (China) Limited (“DFGCL”), an indirect wholly-owned subsidiary of the Company, as purchaser and Chatchawan Sattasakul as guarantor of the vendor, in relation to the acquisition of 73% interest in Top Power Holdings Limited, a limited liability company incorporated in the British Virgin Islands with 70% interest in 北京大陸燃氣有限公司 (Beijing Continental Gas Co., Ltd.) for a consideration of HK\$80 million;
- (b) a sale and purchase agreement dated 5 March 2004 between PCCW and the Company for the acquisition by the Company of: (i) the entire issued share capital of Ipswich Holdings Limited and its subsidiaries (the “Property Group”), which hold certain properties in the PRC and Hong Kong including Pacific Century Place Beijing and PCCW Tower; (ii) certain property situated at Ko Shing Street and Wo Fung Street, Western, Hong Kong; and (iii) the approximately HK\$3,529 million in aggregate of interest-bearing loans owing by the

relevant members of the Property Group to PCCW. The aggregate consideration of approximately HK\$6,557 million was satisfied: (i) as to HK\$2,967 million, by the allotment and issue of approximately 1,648 million new Shares credited as fully paid at an issue price of HK\$1.80 per new Share; and (ii) as to the remaining HK\$3,590 million, by the issue of the convertible notes by the Company to PCCW;

- (c) the convertible note with a face value of HK\$1,170 million issued by the Company to PCCW on 10 May 2004, being the Tranche A Note as detailed in the April 2004 Circular;
- (d) the convertible note with a face value of HK\$2,420 million issued by the Company to PCCW on 10 May 2004, being the Tranche B Note as detailed in the April 2004 Circular;
- (e) a conditional agreement dated 7 September 2004 entered into between DFGCL and See Hup Seng Limited (“SHSL”), a Singapore company listed on the Singapore Exchange Securities Trading Limited, for the disposal of the Company’s entire interest in a gas operation for a consideration of approximately HK\$80 million (approximately HK\$10 million to be settled by cash and the balance to be settled by securities of SHSL);
- (f) a subscription agreement dated 28 October 2004 between Asian Motion and the Company pursuant to which Asian Motion subscribed for 118,000,000 new Shares at the price of HK\$2.18 per Share;
- (g) the Provisional Agreement; and
- (h) the S&P Agreement.

## 10. GENERAL

- (a) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (b) The principal place of business in Hong Kong of the Company is at Units 701-705, Level 7, Cyberport 3, 100 Cyberport Road, Hong Kong.
- (c) The company secretary of the Company is Ms. Chu Mee Lai, Helen, who is an associate member of the Hong Kong Institute of Company Secretaries.
- (d) The qualified accountant of the Company is Ms. Patricia Goh Peck Sin, who is a Certified Practising Accountant of the Australian Society of Accountants.
- (e) The branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, 46th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.
- (f) The English text of this circular shall prevail over the Chinese text.

**11. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the offices of Woo, Kwan, Lee & Lo at 27th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours on any weekday, except public holidays, from the date of this circular up to and including 17 January 2005:

- (a) the memorandum of association and Bye-laws of the Company;
- (b) the audited consolidated financial statements of the Group for each of the two years ended 31 March 2003 and 2004;
- (c) the consent letters of PricewaterhouseCoopers and CB Richard Ellis Limited referred to in the section headed “Consents” in this appendix;
- (d) the letter from PricewaterhouseCoopers on the unaudited financial information on the Property, the text of which is set out in Appendix I to this circular;
- (e) the report from PricewaterhouseCoopers on the pro forma financial information on the Remaining Group, the text of which is set out in Appendix II to this circular;
- (f) the letter, valuation certificate and valuation report prepared by CB Richard Ellis Limited, the text of which is set out in Appendix IV to this circular;
- (g) the material contracts referred to in the section headed “Material contracts” in this appendix; and
- (h) the April 2004 Circular.



Pacific Century  
Premium Developments  
盈科大衍地產發展

## Pacific Century Premium Developments Limited

盈科大衍地產發展有限公司\*

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 432)

**NOTICE IS HEREBY GIVEN** that a special general meeting of Pacific Century Premium Developments Limited (“the Company”) will be held at the Function Room, IT Street, Level 3, Cyberport 3, 100 Cyberport Road, Hong Kong, on 17 January 2005 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution, with or without modification, as an ordinary resolution of the Company:

**“THAT:**

1. (a) the agreement in relation to the sale of the Property (as such term is defined in the circular to the shareholders of the Company dated 30 December 2004, a copy of which has been produced to the meeting and marked “A” and signed by the Chairman of the meeting for identification purposes) by Partner Link Investments Limited (the “**Vendor**”), a wholly-owned subsidiary of the Company, to Richly Leader Limited (the “**Purchaser**”), as constituted by an offer letter dated 19 November 2004 issued by the Purchaser and the ultimate beneficial owner of the Purchaser and accepted by the Company and the Vendor (the “**Provisional Agreement**”, a copy of which has been produced to the meeting and marked “B” and signed by the Chairman of the meeting for identification purposes);
- (b) the formal sale and purchase agreement dated 21 December 2004 entered into between the Vendor and the Purchaser in relation to the sale of the Property by the Vendor to the Purchaser (the “**S&P Agreement**”, a copy of which has been produced to the meeting and marked “C” and signed by the Chairman of the meeting for identification purposes); and
- (c) all transactions contemplated under each of the Provisional Agreement and the S&P Agreement,

be and are hereby approved, ratified and confirmed;

2. any one director of the Company, or any two directors or any one director and the company secretary of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised to do all such acts and things, to sign and execute all such other documents, deeds, instruments and agreements and to take such steps as he/they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Provisional Agreement, the S&P Agreement or any of the transactions contemplated therein and all other matters incidental thereto.”

By Order of the Board  
**Pacific Century Premium Developments Limited**  
**Chu Mee Lai, Helen**  
*Company Secretary*

Hong Kong, 30 December 2004

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## NOTICE OF SGM

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*Registered Office:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Principal place of business*

*in Hong Kong:*  
Units 701-705, Level 7,  
Cyberport 3,  
100 Cyberport Road,  
Hong Kong

*Notes:*

- (a) Any member entitled to attend and vote at the special general meeting (the “SGM”) shall be entitled to appoint another person as his proxy to attend and vote in his stead in accordance with the Company’s Bye-laws. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the SGM. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.
- (b) A form of proxy for use at the SGM is enclosed herewith. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.
- (c) The form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a certified copy thereof, must be deposited with the Company’s branch share registrar, Computershare Hong Kong Investor Services Limited, at 46th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the SGM (or any adjournment thereof) at which the person named in the instrument proposes to vote.
- (d) Completion and return of the form of proxy shall not preclude a member from attending and voting in person at the SGM (or at any adjourned meeting thereof), and in such event, the form of proxy shall be deemed to be revoked.
- (e) Where there are joint holders of any share in the Company, any one of such joint holders may vote at the SGM, either in person or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders are present at the SGM, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and, for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

\* For identification only



Pacific Century  
Premium Developments  
盈科大衍地產發展

## Pacific Century Premium Developments Limited

盈科大衍地產發展有限公司\*

(Incorporated in Bermuda with limited liability)

(Stock Code: 432)

### Special General Meeting to be held on 17 January 2005 or any adjournment thereof Form of proxy for use at the Special General Meeting

I/We<sup>1</sup> \_\_\_\_\_  
of \_\_\_\_\_  
being the registered holder(s) of<sup>2</sup> \_\_\_\_\_ shares of HK\$0.10 each in the capital of Pacific Century Premium Developments Limited (the "Company"), HEREBY APPOINT<sup>3</sup> the chairman of the special general meeting, or \_\_\_\_\_  
of \_\_\_\_\_  
as my/our proxy to attend for me/us at the special general meeting of the Company to be held at the Function Room, IT Street, Level 3, Cyberport 3, 100 Cyberport Road, Hong Kong, on Monday, 17 January 2005 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution as set out in the notice convening the said meeting and at such meeting (or at any adjournment thereof) to vote on behalf of me/us and in my/our name(s) in respect of the said resolution as hereunder indicated.

|                     | For <sup>4</sup> | Against <sup>4</sup> |
|---------------------|------------------|----------------------|
| Ordinary Resolution |                  |                      |

Signature<sup>5</sup> \_\_\_\_\_ Date \_\_\_\_\_

#### NOTES:

1. Full name(s) and address(es) must be inserted in **BLOCK CAPITALS**.
2. Please insert the number of shares registered in your name(s) to which the proxy relates. If no number is inserted, this form of proxy will be deemed to be related to all the shares of the Company registered in your name(s).
3. If any proxy other than the chairman of the special general meeting is preferred, please strike out "the chairman of the special general meeting, or" and insert the name and address of the proxy desired in the space provided. **ANY ALTERATION MADE TO THIS FORM OF PROXY MUST BE INITIALLED BY THE PERSON(S) WHO SIGN(S) IT.**
4. **IMPORTANT: IF YOU WISH TO VOTE FOR A RESOLUTION, TICK THE BOX MARKED "FOR". IF YOU WISH TO VOTE AGAINST THE RELEVANT RESOLUTION, TICK THE BOX MARKED "AGAINST".** Failure to tick either box will entitle your proxy to cast your vote or abstain at his discretion on the relevant resolution. Your proxy will also be entitled to vote at his discretion on any resolution properly put to the said meeting other than those referred to in the notice convening the meeting.
5. This instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.
6. Any member entitled to attend and vote at the special general meeting shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the special general meeting. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.
7. In order to be valid, the form of proxy and the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, must be delivered to the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than forty-eight (48) hours before the time appointed for holding the special general meeting (or any adjournment thereof) at which the person named in the instrument proposes to vote.
8. Completion and return of the form of proxy does not preclude a member from attending and voting in person at the special general meeting (or any adjournment thereof), and in such event, the form of proxy shall be deemed to be revoked.
9. Where there are joint holders of any shares, any one of such joint holder may vote, either in person or by proxy, in respect of such shares as if he were solely entitled thereto; but if more than one of such joint holders are present at the special general meeting, the most senior will alone be entitled to vote, whether in person or by proxy. For this purpose, seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

\* For identification only