
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Pacific Century Premium Developments Limited, you should at once hand this document and the accompanying forms of proxy to the purchaser or the transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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PCCW Limited

電訊盈科有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 0008)



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: 0432)

PICVILLE INVESTMENTS LIMITED

(Incorporated in the British Virgin Islands with limited liability)

**PROPOSED PRIVATISATION OF
PACIFIC CENTURY PREMIUM DEVELOPMENTS LIMITED
BY
PICVILLE INVESTMENTS LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 99 OF THE COMPANIES ACT OF BERMUDA),
AT THE OFFER PRICE OF HK\$2.85 PER SCHEME SHARE**

Sole Financial Adviser to PCCW Limited and Picville Investments Limited



**Independent Financial Adviser to the Independent Board Committee of
Pacific Century Premium Developments Limited**



A letter from the Board (as defined herein) is set out on pages 9 to 17 of this document. An Explanatory Statement (as defined herein) regarding the Scheme (as defined herein) is set out on pages 46 to 63 of this document. A letter from the Independent Board Committee (as defined herein) containing its advice to the Independent Shareholders (as defined herein) in relation to the Scheme is set out on pages 18 to 19 of this document. A letter from N M Rothschild & Sons (Hong Kong) Limited, the independent financial adviser to the Independent Board Committee, containing its advice to the Independent Board Committee in relation to the Scheme is set out on pages 20 to 45 of this document.

The action to be taken by the Independent Shareholders and the Scheme Shareholders (as defined herein) is set out on page 62 of this document.

Notices convening the Court Meeting (as defined herein) and the SGM (as defined herein) to be held in the Conference Room, 14th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong on the same date of 17 April, 2008 at 10:00 a.m. and 10:30 a.m. (or as soon thereafter as the Court Meeting shall have been concluded or adjourned), respectively, are set out on pages 173 to 176 of this document. Whether or not you are able to attend the Court Meeting and/or the SGM or any adjournment thereof, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the enclosed white form of proxy in respect of the SGM, in accordance with the instructions printed thereon, and to lodge them with Computershare Hong Kong Investor Services Limited, the branch share registrar of Pacific Century Premium Developments Limited, at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not later than the times and dates as stated under the paragraph headed "Action to be taken" set out on page 62 of this document. In the case of the pink form of proxy in respect of the Court Meeting, it may be returned by facsimile at number (852) 2989 6268 (marked for the attention of "the Company Secretary") or it may be handed to the chairman of the Court Meeting at the Court Meeting if it is not so lodged.

* For identification only

25 March, 2008

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IMPORTANT NOTICE

NOTICE TO US SHAREHOLDERS

The Proposal is being made for the Shares of PCPD, a company incorporated in Bermuda, the Shares of which are listed on the Stock Exchange, and is proposed to be implemented under a scheme of arrangement provided for under Bermudian company law. A transaction effected by means of a scheme of arrangement is not subject to the proxy solicitation nor the tender offer rules under the United States Securities Exchange Act of 1934. Accordingly, the Proposal will be subject to disclosure requirements and practices in Bermuda and Hong Kong, which are different from the disclosure requirements of the US proxy solicitation rules and tender offer rules. The financial information included in this document has been prepared in accordance with accounting standards in Hong Kong and thus may not be comparable to financial information of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States. In addition, the settlement procedure with respect to the Proposal will comply with the rules of the Takeovers Code and the Companies Act, which differ from US domestic settlement procedures in certain material respects, particularly with regard to the date of payment of consideration.

It may be difficult for US holders of Shares to enforce their rights and any claim arising out of the US federal securities laws, since the Offeror, PCCW and PCPD are located in a non-US jurisdiction, and some or all of their officers and directors may be residents of non-US jurisdictions. US holders of Shares may not be able to sue a non-US company or its officers or directors in a non-US court for violations of the US securities laws. Further, it may be difficult to compel a non-US company and its affiliates to subject themselves to a US court's judgment.

DEFINITIONS

In this document, the following expressions have the meanings set out below unless the context requires otherwise:

“2003 Share Option Scheme”	the share option scheme of PCPD adopted on 17 March, 2003, the termination of which was approved by PCPD’s shareholders at PCPD’s annual general meeting held on 13 May, 2005
“2005 Share Option Scheme”	the share option scheme of PCPD which became effective on 23 May, 2005
“acting in concert”	shall have the meaning given to it in the Takeovers Code
“Adjusted NAV”	adjusted NAV of the PCPD Group which is based on the audited NAV as at 31 December, 2007 and adjusted for certain items as set out in Appendix I
“Adjusted NTAV”	adjusted NTAV of the PCPD Group which is based on the audited NAV as at 31 December, 2007 and adjusted for certain items as set out in Appendix I
“Announcement”	the announcement dated 13 February, 2008 issued jointly by PCCW, the Offeror and PCPD in relation to the Proposal
“Asian Motion”	Asian Motion Limited, a company incorporated in the British Virgin Islands with limited liability, a wholly-owned subsidiary of PCCW and which is beneficially interested in 1,481,333,333 Shares, representing approximately 61.53% of the issued share capital of PCPD as at the Latest Practicable Date
“Associate(s)”	shall have the meaning given to it in the Takeovers Code
“Authorisations”	all necessary authorisations, registrations, filings, rulings, consents, permissions and approvals in connection with the Proposal
“Board”	the board of Directors
“Business Day”	a day (excluding Saturday) on which banks in Hong Kong are generally open for business for more than four hours
“Citigroup”	Citigroup Global Markets Asia Limited, a licensed corporation under the SFO, licensed to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) of the regulated activities

DEFINITIONS

“Companies Act”	the Companies Act 1981 of Bermuda (as amended)
“Conditions”	the conditions to which the Proposal is subject, which are set out in the section headed “Conditions of the Proposal” in the Explanatory Statement appearing on pages 48 to 49 of this document
“connected person”	shall have the meaning given to it in the Listing Rules
“Court”	the Supreme Court of Bermuda
“Court Meeting”	a meeting of the Scheme Shareholders to be convened at the direction of the Court at which the Scheme will be voted upon which will be held in the Conference Room, 14th Floor, PCCW Tower, TaiKoo Place, 979 King’s Road, Quarry Bay, Hong Kong on 17 April, 2008 at 10:00 a.m., the notice of which is set out on pages 173 to 174 of this document, or any adjournment thereof
“Director(s)”	the director(s) of PCPD, including the independent non-executive directors on the Independent Board Committee
“Effective Date”	the date on which the Scheme, if approved, becomes effective in accordance with the Companies Act
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Explanatory Statement”	the explanatory statement set out on pages 46 to 63 of this document and issued in compliance with Section 100 of the Companies Act
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent board committee of PCPD, comprising Cheung Kin Piu, Valiant, Tsang Link Carl, Brian, Prof. Wong Yue Chim, Richard, SBS, JP and Dr. Allan Zeman, GBS, JP, all of whom are independent non-executive directors of PCPD, which has been established to advise the Independent Shareholders in connection with the Proposal
“Independent Shareholders”	Shareholders other than Asian Motion, the Offeror, PCCW and the parties acting in concert with any of them

DEFINITIONS

“Latest Practicable Date”	19 March, 2008, being the latest practicable date prior to the printing of this document for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“NAV”	net asset value
“NTAV”	net tangible asset value
“Note”	a guaranteed convertible note due 2014 in the principal amount of HK\$2,420 million issued by PCPD Wealth Limited, a wholly-owned subsidiary of PCPD, and guaranteed by PCPD
“Offeror”	Picville Investments Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of PCCW
“Offer Period”	the period from the date of the Announcement until the later of (i) the Effective Date; (ii) the date on which the Scheme lapses; or (iii) the date on which an announcement is made of the withdrawal of the Scheme
“Offer Price”	a price of HK\$2.85 per Scheme Share payable to the Scheme Shareholders under the Scheme
“Optionholder(s)”	holder(s) of Options granted under the Share Option Schemes
“Options”	options granted to Optionholders under the Share Option Schemes which remain unexercised
“PCCW”	PCCW Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange and with securities in the form of American depositary receipts, each representing 10 ordinary shares of PCCW, traded on the Pink Sheets in the US
“PCCW Group”	PCCW and its subsidiaries, but excluding the PCPD Group
“PCPD”	Pacific Century Premium Developments Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange

DEFINITIONS

“PCPD Group”	PCPD and its subsidiaries
“Pink Sheets”	a daily listing of bid and ask prices for over-the-counter stocks, published by the National Quotation Bureau
“Pre-Announcement Last Trading Day”	6 February, 2008, being the last trading day prior to the suspension of trading in the Shares pending the issue of the Announcement
“Proposal”	the proposal for the privatisation of PCPD by the Offeror by way of the Scheme as described in this document including the offer for the Options described herein
“Record Date”	the Business Day immediately preceding the Effective Date for the purpose of determining the entitlement of the Scheme Shareholders
“Register”	the register of members of PCPD
“Relevant Authorities”	appropriate governments and/or governmental bodies, regulatory bodies, courts or institutions including the SFC and the Stock Exchange
“Relevant Period”	the period commencing on the date falling six months prior to the commencement date of the Offer Period and ending on the Latest Practicable Date
“Rothschild”	N M Rothschild & Sons (Hong Kong) Limited, the independent financial adviser to the Independent Board Committee in respect of the Proposal and a corporation licensed by the SFC to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) of the regulated activities under the SFO
“Savills”	Savills Valuation and Professional Services Limited, an independent professional property valuer
“Scheme”	a scheme of arrangement under Section 99 of the Companies Act between PCPD and the Scheme Shareholders involving the cancellation of all the Scheme Shares, details of which are set out on pages 167 to 172 of this document, with or subject to any modification thereof or addition thereto or condition approved or imposed by the Court
“Scheme Share(s)”	Share(s) held by the Scheme Shareholder(s) on the Record Date
“Scheme Shareholder(s)”	Shareholders other than Asian Motion, the Offeror and PCCW

DEFINITIONS

“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“SGM”	the special general meeting of PCPD to be held at 10:30 a.m. (or as soon thereafter as the Court Meeting convened for the same date and place shall have been concluded or adjourned) in the Conference Room, 14th Floor, PCCW Tower, TaiKoo Place, 979 King’s Road, Quarry Bay, Hong Kong on 17 April, 2008, for the approval and implementation of the Scheme, the notice of which is set out on pages 175 to 176 of this document, or any adjournment thereof
“Share(s)”	share(s) of HK\$0.10 each in the share capital of PCPD
“Shareholder(s)”	holder(s) of the Shares
“Share Option Schemes”	the 2003 Share Option Scheme and the 2005 Share Option Scheme
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“US”	United States of America
“%”	percent

EXPECTED TIMETABLE

Hong Kong time

Latest time for lodging transfers of Shares to qualify for attending and voting at the Court Meeting and the SGM	4:30 p.m. on Monday, 14 April, 2008
Register of members closed for determination of entitlements of Scheme Shareholders to attend and vote at the Court Meeting and of Shareholders to attend and vote at the SGM	Tuesday, 15 April, 2008 to Thursday, 17 April, 2008 (both days inclusive)
Latest time for lodging forms of proxy in respect of the Court Meeting (<i>Note 1</i>)	10:00 a.m. on Tuesday, 15 April, 2008
Latest time for lodging forms of proxy in respect of the SGM (<i>Note 1</i>)	10:30 a.m. on Tuesday, 15 April, 2008
Suspension of dealing in the Shares	9:30 a.m. on Thursday, 17 April, 2008
Court Meeting (<i>Note 1</i>)	10:00 a.m. on Thursday, 17 April, 2008
SGM (<i>Note 1</i>)	10:30 a.m. on Thursday, 17 April, 2008
Announcement of the results of the Court Meeting and the SGM	no later than 7:00 p.m. on Thursday, 17 April, 2008
Resumption of dealing in the Shares	9:30 a.m. on Friday, 18 April, 2008
Latest time for dealing in the Shares	4:00 p.m. on Monday, 28 April, 2008
Latest time for lodging transfers of Shares to qualify for entitlements under the Scheme	4:30 p.m. on Tuesday, 6 May, 2008
Court hearing of the petition to sanction the Scheme (<i>Note 2 and Note 3</i>)	Friday, 9 May, 2008
Record Date	Friday, 9 May, 2008
Effective Date (<i>Note 3</i>)	Friday, 9 May, 2008
Public holiday in Hong Kong	Monday, 12 May, 2008
Announcement of (i) the result of the Court hearing of the petition to sanction the Scheme, (ii) the Effective Date and (iii) the withdrawal of the listing of the Shares	no later than 9:00 a.m. on Tuesday, 13 May, 2008

EXPECTED TIMETABLE

Withdrawal of the listing of the Shares on the

Stock Exchange becomes effective9:30 a.m. on Tuesday, 13 May, 2008

Cheques for cash entitlements under the Scheme

to be despatchedon or before Monday, 19 May, 2008

Shareholders should note that the above timetable is subject to change. Further announcement(s) will be made in the event that there is any change.

Notes:

1. Forms of proxy should be lodged, by hand or by post, with Computershare Hong Kong Investor Services Limited, the branch share registrar of PCPD, at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event no later than the times and dates stated above. In the case of the pink form of proxy in respect of the Court Meeting, it may be returned by facsimile at number (852) 2989 6268 (marked for the attention of "the Company Secretary") or it may be handed to the chairman of the Court Meeting at the Court Meeting if it is not so lodged. In order to be valid, the pink form of proxy for the Court Meeting and the white form of proxy for the SGM must be lodged not later than the times and dates stated above. Completion and return of a form of proxy for the Court Meeting or the SGM will not preclude a Shareholder from attending the relevant meetings and voting in person. In such event, the returned form of proxy will be deemed to have been revoked.
2. All references in this document to times and dates are references to Hong Kong times and dates, other than the expected dates of the Court hearing of the petition to sanction the Scheme and the Effective Date, which are the relevant dates in Bermuda. Bermuda time is 11 hours behind Hong Kong time.
3. The Scheme shall become effective upon all the Conditions being fulfilled and/or otherwise waived (as the case may be).

The Court Meeting and the SGM will both be held in the Conference Room, 14th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong on Thursday, 17 April, 2008 at 10:00 a.m. and 10:30 a.m. (or as soon thereafter as the Court Meeting shall have been concluded or adjourned), respectively. Please see the notice of the Court Meeting set out on pages 173 and 174 and the notice of the SGM set out on pages 175 and 176 of this document for details.

LETTER FROM THE BOARD



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: 0432)

Executive Directors:

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

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Independent Non-Executive Directors:

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

*Principal place of business
in Hong Kong:*

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

25 March, 2008

To the Shareholders

Dear Sir or Madam,

**PROPOSED PRIVATISATION OF
PACIFIC CENTURY PREMIUM DEVELOPMENTS LIMITED
BY
PICVILLE INVESTMENTS LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 99 OF THE COMPANIES ACT OF BERMUDA),
AT THE OFFER PRICE OF HK\$2.85 PER SCHEME SHARE**

INTRODUCTION

On 13 February, 2008, the boards of directors of PCCW, the Offeror and PCPD jointly announced that the Offeror had requested the Board to put forward the Proposal to the Scheme Shareholders regarding a proposed privatisation of PCPD by way of the Scheme involving the cancellation of all

* *For identification only*

LETTER FROM THE BOARD

the Scheme Shares, as a result of which it is intended that PCPD will become an indirect wholly-owned subsidiary of PCCW. The Scheme Shares comprise all the shares of HK\$0.10 each in the capital of PCPD held by the Scheme Shareholders on the Record Date. As at the Latest Practicable Date, there were 926,126,540 shares of HK\$0.10 each in the capital of PCPD held by the Scheme Shareholders.

PCCW and the Offeror have appointed Citigroup as their sole financial adviser in connection with the Proposal.

An Independent Board Committee of PCPD, comprising all four independent non-executive directors of PCPD, has been established to advise the Independent Shareholders in connection with the Proposal. Rothschild has been appointed as the independent financial adviser to advise the Independent Board Committee in connection with the Proposal.

The purpose of this document is to provide you with further information regarding the Proposal and to give you notices of the Court Meeting and the SGM. Your attention is also drawn to (i) the letter from the Independent Board Committee set out on pages 18 to 19 of this document; (ii) the letter from Rothschild, the independent financial adviser to the Independent Board Committee, set out on pages 20 to 45 of this document; (iii) the Explanatory Statement set out on pages 46 to 63 of this document; and (iv) the Scheme set out on pages 167 to 172 of this document.

TERMS OF THE SCHEME

It is proposed that, subject to the fulfilment or waiver (as applicable) of the Conditions, the Proposal will be implemented by way of a scheme of arrangement pursuant to which the Scheme Shares will be cancelled and, in consideration thereof, each Scheme Shareholder whose name appears in the Register at 4:30 p.m. on the Record Date will be entitled to receive HK\$2.85 in cash for each Scheme Share held. Subject to the Proposal becoming effective and the Optionholder accepting the offer for cancellation of the Options, the Options will also be cancelled.

The cancellation and extinguishment of the Scheme Shares will result in a reduction of the issued share capital of PCPD. Accordingly, immediately following such cancellation and extinguishment of the Scheme Shares, the issued share capital of PCPD shall be increased to the amount prior to the cancellation of the Scheme Shares and PCPD shall apply the reserve created as a result of the aforesaid cancellation of the Scheme Shares to pay up in full and issue to the Offeror such number of new Shares as is equal to the number of Scheme Shares cancelled.

The Offer Price represents:

- a premium of approximately 26.1% over the closing price of HK\$2.26 per Share as quoted on the Stock Exchange on the Pre-Announcement Last Trading Day;
- a premium of approximately 27.8% over the average closing price of about HK\$2.23 per Share based on the daily closing prices as quoted on the Stock Exchange over the 5 trading days up to and including the Pre-Announcement Last Trading Day;

LETTER FROM THE BOARD

- a premium of approximately 19.2% over the average closing price of about HK\$2.39 per Share based on the daily closing prices as quoted on the Stock Exchange over the 30 trading days up to and including the Pre-Announcement Last Trading Day;
- a premium of approximately 15.4% over the average closing price of about HK\$2.47 per Share based on the daily closing prices as quoted on the Stock Exchange over the 120 trading days up to and including the Pre-Announcement Last Trading Day;
- a premium of approximately 2.5% to the audited consolidated NAV per Share of about HK\$2.78 as at 31 December, 2006; and
- a discount of approximately 10.1% to the audited consolidated NAV per Share of about HK\$3.17 as at 31 December, 2007.

As at the Latest Practicable Date, there were 2,407,459,873 Shares in issue and the Scheme Shareholders were interested in 926,126,540 Shares, representing approximately 38.47% of the issued share capital of PCPD. At the Offer Price, which was arrived at after taking into account the factors set out in the section headed “Reasons for the Proposal” below and in the Explanatory Statement appearing on pages 55 to 57 of this document, the Proposal values the entire issued share capital of PCPD at approximately HK\$6,861 million.

When the Conditions are fulfilled or, where applicable, waived, the Scheme will become effective and binding on the Offeror, PCPD and all the Scheme Shareholders. The Scheme will lapse if it does not become effective on or before 31 August, 2008 or such later date as the Offeror and PCPD may agree and the Court may allow. PCPD has applied for, and the Executive has granted, a waiver from compliance with Rule 15.7 of the Takeovers Code in relation to the Scheme.

Shareholders and/or potential investors should be aware that implementation of the Proposal is subject to the Conditions being fulfilled or waived, as applicable, and thus the Proposal may or may not become effective. Shareholders are advised to exercise caution when dealing in Shares.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE OF PCPD

The table below sets out the shareholding structure of PCPD as at the Latest Practicable Date and immediately following implementation of the Proposal:

Shareholders	As at the Latest Practicable Date		Immediately following implementation of the Proposal	
	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>
Asian Motion	1,481,333,333	61.53	1,481,333,333	61.53
Offeror	<u>0</u>	<u>0</u>	<u>926,126,540</u>	<u>38.47</u>
Offeror and parties acting in concert with it	1,481,333,333	61.53	2,407,459,873	100.00
Independent Shareholders	<u>926,126,540</u>	<u>38.47</u>	<u>0</u>	<u>0</u>
Total	<u>2,407,459,873</u>	<u>100.00</u>	<u>2,407,459,873</u>	<u>100.00</u>

Following the Effective Date and the withdrawal of listing of the Shares on the Stock Exchange, PCPD will become an indirect wholly-owned subsidiary of PCCW.

The 2003 Share Option Scheme was approved and adopted on 17 March, 2003. The Shareholders approved the termination of the 2003 Share Option Scheme and the adoption of the 2005 Share Option Scheme at PCPD's annual general meeting held on 13 May, 2005. The 2005 Share Option Scheme became effective on 23 May, 2005 following its approval by the shareholders of PCCW. No further options were granted under the 2003 Share Option Scheme following its termination, but the provisions of such scheme remain in full force and effect with respect to Options granted prior to its termination. No share options have been granted under the 2005 Share Option Scheme since its adoption.

As at the Latest Practicable Date, Options relating to 5,000,000 Shares were outstanding and exercisable under the Share Option Schemes, with an exercise price of HK\$2.375 per Share. The Options are held by Mr. Chung Cho Yee, Mico, a director of PCCW and of a subsidiary of PCPD. Mr. Chung is therefore a connected person of PCCW and PCPD. Mr. Chung has undertaken to the Offeror and PCPD not to exercise any of the Options prior to the Proposal either becoming effective or lapsing and, accordingly, will not be eligible to vote on the Proposal as an Independent Shareholder at the Court Meeting. Conditional upon the Proposal becoming effective and the Optionholder accepting the offer for the cancellation of the Options, the Options held by Mr. Chung will be cancelled and the amount of the offer to cancel an Option will be calculated by deducting the exercise price per Share payable on exercise of an Option from the Offer Price per Share payable under the Scheme. A letter from the Offeror to Mr. Chung setting out the terms of the proposal will be despatched to him on the same day as the despatch of this document.

PCCW-HKT Partners Limited, an indirect wholly-owned subsidiary of PCCW and a person deemed to be acting in concert with the Offeror for the purposes of the Takeovers Code, is the holder

LETTER FROM THE BOARD

of the Note. The Note is convertible into an aggregate of 672,222,222 new Shares at a conversion price of HK\$3.60 per Share. PCCW-HKT Partners Limited has confirmed to PCCW, the Offeror and PCPD that PCCW-HKT Partners Limited will not exercise any of the conversion rights conferred by the Note, and will not transfer the Note or any part thereof, in each case, prior to the Proposal either becoming effective or lapsing. Accordingly, PCCW-HKT Partners Limited will not be eligible to vote on the Proposal as an Independent Shareholder at the Court Meeting. Having regard to the fact that PCCW-HKT Partners Limited is a person acting in concert with the Offeror for the purposes of the Takeovers Code, the Offeror will not make an offer to PCCW-HKT Partners Limited to cancel the conversion rights conferred by the Note and PCCW-HKT Partners Limited has consented to this arrangement.

As at the Latest Practicable Date, apart from the Options and the Note there were no outstanding options, warrants, derivatives or convertible securities issued by PCPD.

As at the Latest Practicable Date, apart from the Options and the Note, there were no outstanding derivatives in respect of securities in PCPD entered into by the Offeror or any person acting in concert with it.

In view of the relatively insignificant interest of Mr. Chung Cho Yee, Mico in the Options, representing approximately 0.21% of the enlarged issued share capital of PCPD following the exercise of the Options in full and the confirmation by Mr. Chung to the Executive prior to the Announcement that (1) he has not been involved in PCCW's and the Offeror's decision making process as regards the making of the Proposal; and (2) at any time prior to the Effective Date or the date on which the Scheme lapses (whichever is the earlier): (i) he will not be involved in PCCW's and the Offeror's decision making process as regards the making of the Proposal; (ii) he will not take part or vote as a Shareholder of PCPD at any meetings of Shareholders of PCPD to approve the Proposal; and (iii) he will receive no ancillary benefit in respect of the Proposal (other than the payment to cancel his Options if the Proposal becomes effective), the Executive has granted a waiver in respect of Rule 2.4 of the Takeovers Code. As such, the board of directors of PCCW does not need to obtain independent advice as to whether the making of the Proposal is in the interests of shareholders of PCCW.

REASONS FOR THE PROPOSAL AND BENEFITS TO SCHEME SHAREHOLDERS

Reasons for the Proposal

The management of PCCW has noted that the share price of PCPD has underperformed both the Hang Seng Index and the Hang Seng Property Index since the transfer of the PCCW Group's Cyberport development rights, property investments and facilities management operations to PCPD in 2004. The Shares have also been trading at a significant discount to NAV of PCPD. Based on PCPD's published unaudited interim financial statements as at 30 June, 2007, the unaudited consolidated NAV per Share was approximately HK\$3.03. The Shares have therefore traded at discounts of approximately 25.4%, 23.8% and 21.5% to the aforesaid unaudited consolidated NAV of approximately HK\$3.03 per Share (or approximately 28.7%, 27.1% and 24.9% to the audited consolidated NAV per Share of approximately HK\$3.17 as at 31 December, 2007), compared with the closing price of HK\$2.26 per Share on the Pre-Announcement Last Trading Day, the latest one-month (up to the Pre-Announcement Last Trading Day) volume-weighted average price of approximately HK\$2.31 per Share, and the latest

LETTER FROM THE BOARD

two-month (up to the Pre-Announcement Last Trading Day) volume-weighted average price of approximately HK\$2.38 per Share, respectively. Since the publication of the Announcement, PCPD has published its preliminary results for the year ended 31 December, 2007. The audited consolidated financial statements for the year ended 31 December, 2007 are included in the “Financial Information on the PCPD Group” set out in Appendix I to this document, and Savills has produced a valuation report on all the property interests held by the PCPD Group, a copy of which is reproduced in Appendix II to this document. Based on the audited consolidated financial statements of PCPD as at 31 December, 2007, the audited consolidated NAV per Share is approximately HK\$3.17.

Furthermore, the trading volume of the Shares has been thin, resulting in low trading liquidity of the Shares. The average daily trading volume for the last 12 months up to and including the Pre-Announcement Last Trading Day is approximately 2.6 million Shares, representing approximately 0.11% of the total Shares in issue and approximately 0.28% of the total Scheme Shares.

Benefits to PCCW and its shareholders

A privatisation of PCPD should have the following benefits:

First, once privatised, PCPD will be able to concentrate on property projects that create value over a longer term and will not be distracted and pressurised to deliver short term performance for the benefit of its public shareholders due to the requirement of regular reporting and disclosure of its financial results. This pressure will always be present as long as the price of the Shares continues to trade at such a substantial discount to PCPD’s NAV.

Second, PCPD’s management will be able to focus on running its property business without the distraction of maintaining regular shareholder reports and other ongoing obligations required of a company listed on the Stock Exchange. We have been informed by PCCW that the board of directors of PCCW considers that the Offer Price is reasonable and in light of the benefits stated above, it makes economic sense and is in the interest of the shareholders of PCCW as a whole for PCCW to privatise PCPD.

Benefits to Scheme Shareholders

The Directors (other than the members of the Independent Board Committee established to advise the Independent Shareholders in connection with the Proposal whose views are set out in their letter to the Independent Shareholders on pages 18 and 19 of this document) agree with PCCW’s view as set out in the section headed “Reasons for the Proposal” above and in the Explanatory Statement on pages 55 to 57 of this document. In the circumstances, the Directors (other than the members of the Independent Board Committee) have decided to put forward the Proposal to the Scheme Shareholders for their consideration.

Given the scarcity of land supply in Hong Kong, PCPD has faced and will continue to face difficulties in securing large-scale sites with suitable development potential which meet the investment and development criteria of PCPD. Furthermore, having considered the costs of and potential obstacles to the redevelopment of telephone exchanges in Hong Kong, including, amongst others, uncertainties associated with the long lead-time for obtaining approval from the relevant

LETTER FROM THE BOARD

government authorities, the management of PCPD expects that the potential profit realisation from these redevelopment opportunities in the near term is uncertain and limited. Although the PCPD Group will continue to explore potential opportunities in property development, it remains a challenge for the PCPD Group to replicate its historical financial performance in the near term.

In view of the unsatisfactory share price performance and trading liquidity, PCPD has not raised any funds from the equity capital markets in the last three years and PCPD has no intention to raise any funds from the equity capital markets in the foreseeable future.

Having also considered the other principal factors as discussed above, the management of PCPD (other than the members of the Independent Board Committee) is of the view that the costs associated with the maintenance of the listing of the Shares on the Stock Exchange and PCPD's publicly listed status are no longer warranted.

Since PCCW already owned indirectly approximately 61.53% of PCPD as at the Latest Practicable Date, the Directors (other than the members of the Independent Board Committee) believe that it is unlikely that the Scheme Shareholders will receive any other offer to acquire the Shares from a third party without the approval of PCCW. In addition, we have been informed by PCCW that no discussions have taken place (or are taking place) between PCCW and any third party regarding the disposal of any of the Shares held by PCCW through Asian Motion and PCCW has no intention of discontinuing the business of PCPD.

Having considered all the above factors, the Directors (other than the members of the Independent Board Committee) believe that the Proposal represents an attractive opportunity for the Scheme Shareholders to realise their entire investment at a premium to current market value under the current highly volatile stock market environment.

INFORMATION ON THE PCPD GROUP, THE OFFEROR AND THE PCCW GROUP

Your attention is drawn to the paragraph headed "Information on the PCPD Group" set out on pages 53 and 54 of this document and "Information on the Offeror and the PCCW Group" in the Explanatory Statement set out on pages 54 and 55 of this document. Your attention is also drawn to the "Financial Information on the PCPD Group" set out in Appendix I to this document and the "Property Valuation of the PCPD Group" set out in Appendix II to this document. In addition, on 6 March, 2008, PCPD published its preliminary results for the year ended 31 December, 2007. The audited consolidated financial statements for the year ended 31 December, 2007 are included in the "Financial Information on the PCPD Group" set out in Appendix I to this document.

INTENTION OF THE OFFEROR WITH REGARD TO PCPD

Your attention is drawn to the paragraph headed "Intention of the Offeror with regard to PCPD" in the Explanatory Statement.

OVERSEAS SHAREHOLDERS OF PCPD

Your attention is drawn to the paragraph headed "Overseas shareholders of PCPD" in the Explanatory Statement.

LETTER FROM THE BOARD

COURT MEETING AND SGM

In accordance with the direction of the Court, the Court Meeting will be convened on 17 April, 2008, for the purpose of considering and, if thought fit, passing an appropriate resolution to approve the Scheme (with or without modifications). The Scheme will be subject to the approval by the Scheme Shareholders at the Court Meeting (without counting the votes of those Scheme Shareholders not being Independent Shareholders) in the manner referred to in paragraph (a) of the section headed “Conditions of the Proposal” in the Explanatory Statement on pages 48 to 49 of this document.

As at the Latest Practicable Date, Asian Motion was interested in 1,481,333,333 Shares, representing approximately 61.53% of the issued share capital of PCPD. Asian Motion is, in common with the Offeror, a wholly-owned subsidiary of PCCW. Accordingly, the Shares in which Asian Motion is interested will not form part of the Scheme Shares and Asian Motion does not have the right to vote at the Court Meeting. In view of the interests of Asian Motion in the Proposal, any holders of Scheme Shares who are acting in concert with Asian Motion, PCCW and the Offeror are not entitled to and will not vote at the Court Meeting.

Immediately following the Court Meeting, the SGM will be convened for the purpose of considering and, if thought fit, passing a special resolution to approve and give effect to the Scheme (including the cancellation of the Scheme Shares and the reduction of the issued share capital of PCPD). The special resolution will be passed provided that it is approved by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting, in person or by proxy, at the SGM. All Shareholders will be entitled to attend and vote on such special resolution at the SGM.

Asian Motion has indicated that if the Scheme is approved at the Court Meeting, it will vote in favour of the special resolution to be proposed at the SGM to approve and give effect to the Scheme. Each of the Offeror and Asian Motion and their respective concert parties will undertake to appear by counsel at the hearing of the petition to sanction the Scheme and to undertake to the Court to be bound thereby and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed and done by the Offeror and Asian Motion, respectively, for the purpose of giving effect to the Scheme.

Notice of the Court Meeting is set out on pages 173 to 174 of this document. The Court Meeting will be held at 10:00 a.m. on 17 April, 2008 in the Conference Room, 14th Floor, PCCW Tower, TaiKoo Place, 979 King’s Road, Quarry Bay, Hong Kong.

Notice of the SGM is set out on pages 175 to 176 of this document. The SGM will be held at 10:30 a.m. on 17 April, 2008 in the Conference Room, 14th Floor, PCCW Tower, TaiKoo Place, 979 King’s Road, Quarry Bay, Hong Kong or as soon thereafter as the Court Meeting shall have been concluded or adjourned.

ACTION TO BE TAKEN

Your attention is drawn to the paragraph headed “Action to be taken” in the Explanatory Statement.

LETTER FROM THE BOARD

RECOMMENDATION

Your attention is drawn to the recommendation of the Independent Board Committee in respect of the Proposal and the Scheme as set out in the letter from the Independent Board Committee set out on pages 18 to 19 of this document.

SHARE CERTIFICATES, DEALINGS, LISTING, REGISTRATION AND PAYMENT

Your attention is drawn to the paragraphs headed “Share certificates, dealings and listing” and “Registration and payment” in the Explanatory Statement.

Payment of the Offer Price will be effected by cheques and implemented in full in accordance with the terms of the Scheme without regard to any lien, right of set-off, counterclaim or other analogous right which PCPD may have or claim to have against any holder of the Scheme Shares. Assuming that the Scheme becomes effective on 9 May, 2008, cheques for cash entitlements under the Scheme are expected to be despatched to the Scheme Shareholders on or before 19 May, 2008.

TAXATION AND INDEPENDENT ADVICE

Your attention is drawn to the paragraph headed “Taxation” in the Explanatory Statement.

It is emphasised that none of PCCW, the Offeror, PCPD, Citigroup or any of their respective directors or associates or any other person involved in the Scheme accept responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of the implementation or otherwise of the Scheme.

FURTHER INFORMATION

You are urged to read carefully (i) the letters from the Independent Board Committee and from Rothschild, the independent financial adviser to the Independent Board Committee, as set out on pages 18 to 19 and pages 20 to 45 of this document, respectively; (ii) the Explanatory Statement as set out on pages 46 to 63 of this document; (iii) the Appendices to this document, including the Scheme as set out on pages 64 to 172 of this document; (iv) the notice of the Court Meeting as set out on pages 173 to 174 of this document; and (v) the notice of the SGM as set out on pages 175 to 176 of this document.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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: 0432)

25 March, 2008

To the Independent Shareholders

Dear Sir or Madam,

**PROPOSED PRIVATISATION OF
PACIFIC CENTURY PREMIUM DEVELOPMENTS LIMITED
BY
PICVILLE INVESTMENTS LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 99 OF THE COMPANIES ACT OF BERMUDA),
AT THE OFFER PRICE OF HK\$2.85 PER SCHEME SHARE**

We refer to the document dated 25 March, 2008 jointly issued by PCCW, the Offeror and PCPD in relation to the Proposal (the “Scheme Document”), of which this letter forms part. Terms defined in the Scheme Document shall have the same meanings as in this letter unless the context otherwise requires.

On 13 February, 2008, the boards of directors of PCCW, the Offeror and PCPD jointly announced that the Offeror had requested the Board to put forward the Proposal to the Scheme Shareholders regarding a proposed privatisation of PCPD by way of the Scheme involving the cancellation of all the Scheme Shares, as a result of which it is intended that PCPD will become an indirect wholly-owned subsidiary of PCCW. Details of the Proposal are set out in the “Letter from the Board” on pages 9 to 17 and the Explanatory Statement on pages 46 to 63 of the Scheme Document.

For the purpose of the Proposal and as the Directors who are independent of the parties to the Proposal, we have been appointed as members of the Independent Board Committee to give a recommendation to the Independent Shareholders as to whether, in our opinion, the terms of the Proposal are fair and reasonable so far as the Independent Shareholders are concerned, and to advise the Independent Shareholders on how to vote in respect of the Scheme at the Court Meeting and the SGM. Rothschild has been appointed as the independent financial adviser to advise the Independent Board Committee in connection with the Proposal. Details of the advice from Rothschild and the principal factors Rothschild has taken into consideration in arriving at its recommendation are set out in the “Letter from Rothschild” on pages 20 to 45 of the Scheme Document.

* *For identification only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We also wish to draw the attention of the Independent Shareholders to the further information set out in the appendices to the Scheme Document.

Recommendations

Having considered the terms of the Proposal and the advice from Rothschild, we consider that the terms of the Proposal are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to approve the Scheme at the Court Meeting. We also recommend the Independent Shareholders to vote in favour of the special resolution to approve and give effect to the Scheme at the SGM.

Yours faithfully,
Independent Board Committee

Cheung Kin Piu, Valiant
Independent Non-Executive Director

Tsang Link Carl, Brian
Independent Non-Executive Director

Prof. Wong Yue Chim, Richard, SBS, JP
Independent Non-Executive Director

Dr. Allan Zeman, GBS, JP
Independent Non-Executive Director

LETTER FROM ROTHSCHILD

Set out below is the text of the letter from Rothschild prepared for inclusion in this document.



25 March, 2008

*To the Independent Board Committee of
Pacific Century Premium Developments Limited*

Dear Sirs,

**PROPOSED PRIVATISATION OF
PACIFIC CENTURY PREMIUM DEVELOPMENTS LIMITED
BY
PICVILLE INVESTMENTS LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 99 OF THE COMPANIES ACT OF BERMUDA),
AT THE OFFER PRICE OF HK\$2.85 PER SCHEME SHARE**

We refer to our engagement to advise the Independent Board Committee with respect to the Proposal, details of which are contained in the scheme document of PCPD dated 25 March, 2008 (the "Scheme Document") of which this letter forms a part. Rothschild has been appointed as the independent financial adviser to advise the Independent Board Committee as to whether or not the terms of the Proposal are fair and reasonable so far as the Independent Shareholders are concerned, and to advise the Independent Shareholders as to how they should vote on the Proposal.

The terms used in this letter shall have the same meanings as defined elsewhere in the Scheme Document unless the context otherwise requires.

In accordance with Rule 2.1 of the Takeovers Code, an Independent Board Committee comprising Cheung Kin Piu, Valiant, Tsang Link Carl, Brian, Prof. Wong Yue Chim, Richard, SBS, JP and Dr. Allan Zeman, GBS, JP, all of whom are independent non-executive directors of PCPD, has been established for the purpose of advising the Independent Shareholders in connection with the Proposal. Other than members of the Independent Board Committee, none of the executive directors of PCPD is considered independent for the purpose of giving any advice or recommendation to the Independent Shareholders in relation to the Proposal.

In formulating our recommendation, we have relied on the information and facts supplied to us by PCPD and have assumed that any information and representations made to us are true, accurate and complete in all material respects as at the date hereof and that they may be relied upon. We have also assumed that all information, representations and opinions contained or referred to in the Scheme Document are fair and reasonable and have relied on them.

N M Rothschild & Sons (Hong Kong) Limited
16th Floor, Alexandra House
18 Chater Road, Central
Hong Kong SAR

Telephone +852 2525 5333
Facsimile +852 2868 1728

LETTER FROM ROTHSCHILD



We have been advised by the Directors that no material facts have been omitted and we are not aware of any facts or circumstances which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. The Directors (in respect of the information on the PCPD Group other than that related to the PCCW Group) and the directors of PCCW (in respect of the information on the PCCW Group other than that related to the PCPD Group and the Directors) have jointly and severally accepted full responsibility for the accuracy of the information contained in the Scheme Document and have confirmed, having made all reasonable enquiries, that, to the best of their knowledge and belief, opinions expressed in the Scheme Document have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in the Scheme Document misleading. We believe that we have reviewed sufficient information to reach an informed view in order to provide a reasonable basis for our advice. We have not, however, conducted any independent in-depth investigation into the business and affairs of the PCPD Group or the PCCW Group.

We have not considered the tax consequences on the Independent Shareholders of their acceptances or non-acceptances of the Proposal since these are particular to their own individual circumstances. In particular, Independent Shareholders who are residents outside of Hong Kong, or subject to overseas taxes or Hong Kong taxation on securities dealing should consider their own tax position with regard to the Proposal and, if in any doubt, should consult their own professional advisers.

TERMS OF THE PROPOSAL

For details of the terms of the Proposal, your attention is drawn to the “Letter from the Board” and the Explanatory Statement in the Scheme Document. In summary, the Proposal involves the following principal steps:

- The Offeror, an indirect wholly-owned subsidiary of PCCW, proposes a cash payment of HK\$2.85 for each Scheme Share in exchange for the cancellation of all Scheme Shares;
- The Proposal will be implemented by way of a scheme of arrangement under Section 99 of the Companies Act, subject to the fulfilment or, where applicable, waiver (in whole or in part) of the Conditions; and
- Following cancellation of all the Scheme Shares, it is intended that PCPD will become an indirect wholly-owned subsidiary of PCCW, and the listing of the Shares on the Stock Exchange will be withdrawn.

The Proposal is subject to a number of Conditions, including but not limited to approval by the Independent Shareholders at the Court Meeting, approval by Shareholders at the SGM, the Court’s sanction of the Scheme, as well as Authorisations by the Relevant Authorities in Bermuda and/or Hong Kong and/or any other relevant jurisdictions being obtained. Further details of the Conditions are set out in the Explanatory Statement.



PRINCIPAL FACTORS AND REASONS

In arriving at our opinion, we have taken into consideration the following principal factors and reasons:

1. Background and rationale of the Proposal

The PCPD Group is principally engaged in the development and management of premium property and infrastructure projects, as well as investment in premium-grade buildings, in the Asia-Pacific region. In particular, the PCPD Group holds the development rights for the Cyberport project in Hong Kong, which comprises four office buildings, a five-star hotel, a retail entertainment complex and a deluxe residential development, and is owned by the Government of Hong Kong (the “Hong Kong Government”). The residential development of the Cyberport project, namely the Bel-Air residential development, to which the PCPD Group is entitled a certain percentage of the net surplus proceeds from the sale of residential units according to an arrangement with the Hong Kong Government (“Cyberport Project Agreement”), constitutes a major component of the PCPD Group’s property portfolio (please refer to the “Property Valuation of the PCPD Group” in Appendix II to the Scheme Document for further information). The Bel-Air residential development consists of a total of over 2,700 units, of which approximately 99% has been sold or pre-sold as at the Latest Practicable Date (or “LPD”). Outside of Hong Kong, the PCPD Group also has property interests in Mainland China, Thailand and Japan.

As stated in the “Letter from the Board” in the Scheme Document, the management of PCCW noted that the share price of PCPD has underperformed both the Hang Seng Index (“HSI”) and the Hang Seng Property Index (“HSPI”) since the transfer of the PCCW Group’s Cyberport development rights, property investments and facilities management operations into PCPD in 2004. The Shares have also been trading at a significant discount to PCPD’s NAV. In addition, the trading volume of the Shares has been thin, resulting in low trading liquidity of the Shares.

In view of the unsatisfactory price performance and low trading liquidity of the Shares, PCPD has not raised any funds from the equity capital markets in the past three years. PCPD has also stated in the “Letter from the Board” that it has no intention to raise any funds from the equity capital markets in the foreseeable future.

Having considered all the other principal factors as discussed above, we concur with the view of the management of PCPD that the costs associated with maintaining the listing of the Shares on the Stock Exchange as well as PCPD’s publicly listed status are no longer warranted.

LETTER FROM ROTHSCHILD



2. Valuation considerations

In assessing the valuation of the Scheme Shares, we have taken into consideration the following principal factors: (i) historical financial performance of PCPD; (ii) future prospects of PCPD; (iii) the NTAV and Adjusted NTAV of PCPD; and (iv) the Offer Price.

(i) Historical financial performance of PCPD

The following is a summary of the audited consolidated income statements of the PCPD Group for the three years ended 31 December, 2007 as extracted from the “Financial Information on the PCPD Group” in Appendix I to the Scheme Document.

Table 1 — Summary of audited consolidated income statement

	For the year ended 31 December,		
	2007	2006	2005
	<i>(HK\$ million)</i>		
Turnover	3,134	7,263	5,127
Cost of sales	<u>(2,031)</u>	<u>(6,075)</u>	<u>(4,201)</u>
Gross profit	1,103	1,188	926
General and administrative expenses	(356)	(308)	(260)
Other income	21	57	—
Other losses, net	(54)	(25)	(67)
Interest income	275	376	222
Surplus on revaluation of investment properties	14	2	16
Finance costs	<u>(133)</u>	<u>(130)</u>	<u>(127)</u>
Profit before taxation	870	1,160	710
Income tax	<u>(86)</u>	<u>(195)</u>	<u>(113)</u>
Profit attributable to equity holders of PCPD	<u><u>784</u></u>	<u><u>965</u></u>	<u><u>597</u></u>
Dividends			
Interim dividend	36	36	36
Final dividend proposed after the balance sheet date	<u>—</u>	<u>132</u>	<u>132</u>
Earnings per share (HK cents)			
Basic	32.59 cents	40.16 cents	25.77 cents
Diluted	<u>29.78 cents</u>	<u>35.47 cents</u>	<u>23.51 cents</u>
Dividends per share (HK cents)	<u>1.50 cents</u>	<u>7.00 cents</u>	<u>7.00 cents</u>

LETTER FROM ROTHSCHILD



Turnover and gross profit margin

Turnover of the PCPD Group increased by approximately 41.7% from approximately HK\$5,127 million for the year ended 31 December, 2005 to approximately HK\$7,263 million for the year ended 31 December, 2006. The increase was primarily attributable to an improvement in turnover from property development, which contributed to more than 90% of the total turnover of the PCPD Group for each of the two years ended 31 December, 2005 and 2006. In particular, turnover from property development increased by approximately 44.2% from approximately HK\$4,821 million in 2005 to approximately HK\$6,953 million in 2006. The increase in turnover from property development was mainly due to revenue recognition from sales of units in Bel-Air on the Peak as it reached completion during the year. In addition to property development, the PCPD Group also recorded turnover from property investment, and other businesses including property management, facilities management, corporate services and asset management, which in aggregate contributed to less than 10% of the PCPD Group's total turnover. Revenue from property investment and other businesses were approximately HK\$306 million and HK\$310 million for the two years ended 31 December, 2005 and 2006 respectively.

In terms of geographical segments, revenue from the PCPD Group's business activities in Hong Kong contributed to more than 95% of the total revenue in both 2005 and 2006.

In spite of the increase in turnover, gross profit margin decreased slightly from approximately 18.1% in 2005 to approximately 16.4% in 2006.

Turnover for the year ended 31 December, 2007 has declined by approximately 56.8% to HK\$3,134 million. Based on our discussions with the management of the PCPD Group and the Directors, we understand that the decrease was primarily due to reduction in turnover from property development, as the number of units in the Bel-Air residential development that was sold and completed in 2007 was significantly lower than that of 2006. Revenue from property development decreased by approximately 59.7% to approximately HK\$2,800 million for the year ended 31 December, 2007. Revenue from property investment and other businesses totalled approximately HK\$334 million for the year ended 31 December, 2007, which slightly increased by approximately 7.7% when compared to the revenue from property investment and other businesses recorded for the year ended 31 December, 2006.

In 2007, turnover from the PCPD Group's activities in Hong Kong represents approximately 92.3% of the PCPD Group's total revenue.

Despite the significant drop in turnover, gross margin of the PCPD Group increased notably in the year ended 31 December, 2007 to approximately 35.2% (2006: 16.4%). Based on our discussions with the management of the PCPD Group and the Directors, the increase was mainly due to an adjustment in the cost of sales as a result of the revision of estimates of the development costs of the Bel-Air residential project in the year ended 31 December, 2007. The effect of the adjustment on gross margin was amplified due to the lower level of revenue recognised during the period.



Profit before taxation and profit attributable to equity holders of PCPD

Profit before taxation increased by approximately 63.4% from approximately HK\$710 million for the year ended 31 December, 2005 to approximately HK\$1,160 million for the year ended 31 December, 2006. The increase in profit before taxation was primarily attributable to the increase in turnover as stated above. For similar reasons, profit attributable to equity holders of PCPD increased in line with profit before taxation by approximately 61.6% from approximately HK\$597 million for the year ended 31 December, 2005 to approximately HK\$965 million for the year ended 31 December, 2006.

Due to the decrease in residential units sold and completed in the year ended 31 December, 2007, profit before taxation decreased by approximately 25.0% to approximately HK\$870 million for the year ended 31 December, 2007. Similarly, profit attributable to equity holders of PCPD decreased by approximately 18.8% to approximately HK\$784 million for the year ended 31 December, 2007.

(ii) Future prospects of PCPD

We note from the paragraph headed “Intention of the Offeror with regard to PCPD” in the Explanatory Statement that it is the intention of the Offeror to maintain the existing business of the PCPD Group upon a successful privatisation of PCPD. Since a substantial proportion of the PCPD Group’s revenue is derived from property development, in assessing the future prospects of PCPD we have taken into consideration the PCPD Group’s existing property development projects, potential challenges faced by the PCPD Group in obtaining suitable large scale sites for property development as well as the aforementioned intention of the Offeror.

As noted in the sub-paragraph headed “Historical financial performance of PCPD” above, the main source of revenue of the PCPD Group for the past three years has been the sale of units in the Bel-Air residential development. As at the Latest Practicable Date, out of a total of over 2,700 units in the Bel-Air residential development, there were only 27 units (the Villa Bel-Air houses) with a total gross floor area of 171,456 square feet, two units (Bel-Air apartments) with a total gross floor area of 9,138 square feet and four carpark spaces remain unsold. In respect of the Villa Bel-Air houses, one unit has been contracted to be sold and in respect to the last phase of the Bel-Air residential development, namely Bel-Air No. 8, 707 residential units (including 740 carpark spaces) have been pre-sold, all pending sales to be transacted upon completion of the development. Based on our discussions with the management of the PCPD Group and the Directors, the revenue from the pre-sale of the above 708 units prior to 1 January, 2008 is expected to be recognised following completion of residential units in 2008 (subject to all relevant conditions of, including but not limited to, the pre-sale contracts, being fulfilled). Besides the Bel-Air residential development, PCPD’s only other property under development in Hong Kong was the telephone exchange redevelopment project. Located on Wo Fung Street in Sheung Wan, Hong Kong, the site with a total gross floor area of 117,938 square feet will be redeveloped into a residential building with approximately 150 residential units to be completed by the last quarter of 2009.

LETTER FROM ROTHSCHILD



We note that PCPD has the right of first refusal to join with PCCW to redevelop PCCW's telephone exchange buildings into residential and/or commercial properties. Based on our discussions with the management of the PCPD Group and the Directors, we understand that PCPD has conducted a review of all the telephone exchange buildings in Hong Kong and assessed the technical and financial viability of redeveloping the telephone exchange buildings. However, based on the review and as advised by the Directors, except for the aforementioned telephone exchange redevelopment project in Sheung Wan, potential profit realisation from these redevelopment opportunities in the near term is uncertain and limited, due to potential obstacles including, amongst others, uncertainties associated with the long lead-time for obtaining approval from relevant government authorities in relation to, for instance, town planning zoning, lease modification and land exchange.

Besides the two projects aforementioned, we understand further that the PCPD Group has no other property under development in Hong Kong as at the Latest Practicable Date. Given the scarcity of land supply in Hong Kong, PCPD has faced and will continue to face difficulties in securing large-scale sites with suitable development potential which meet the investment and development criteria of PCPD.

According to the Land Registry of the Hong Kong Government, the total number of residential units sold (including second-hand transfers) in Hong Kong in 2007 increased by approximately 47.0% when compared with the total number of residential units sold (including second-hand transfers) in 2006. The total consideration of the residential units sold also increased by approximately 66.8%. Despite the overall increase in the level of activities in the Hong Kong residential property market in 2007, we understand from the management of the PCPD Group and the Directors that the financial impact to the PCPD Group will not be material as most of the units in the Bel-Air residential development have already been sold or pre-sold and the PCPD Group does not have a large inventory of property under development, property held for sale or land bank in Hong Kong.

Outside of Hong Kong, the PCPD Group has acquired a site for a luxurious residential development project in Chaoyang District in Beijing, the People's Republic of China, which is scheduled for completion in 2010. As disclosed in the annual report of PCPD for the year ended 31 December, 2006, the PCPD Group continues to explore potentials in property development and redevelopment through ongoing co-operation between PCCW and its alliance partner China Network Communications Group Corporation. However, based on our discussions with the management of the PCPD Group and the Directors, there has been no new property under development identified in this connection as of the Latest Practicable Date.

LETTER FROM ROTHSCHILD



With regards to investment properties¹, the PCPD Group owns a commercial and residential complex, namely Pacific Century Place, in Beijing, the People's Republic of China, with total gross floor area of approximately 1,828,974 square feet and 861 carpark spaces. The gross rental income from this property accounted for a significant proportion of the PCPD Group's revenue from this segment. The PCPD Group's revenue from property investment amounted to approximately HK\$233 million, HK\$228 million, and HK\$235 million, representing approximately 4.5%, 3.1% and 7.5% of the PCPD Group's total turnover for the three years ended 31 December, 2005, 2006 and 2007 respectively.

In addition, the PCPD Group held certain property interests in Thailand and Japan for future development, which accounted for approximately 4.7% of the PCPD Group's total assets as at 31 December, 2007.

In view of the fact that (a) the major historical source of revenue, namely the Bel-Air residential development, has few remaining units unsold; (b) the PCPD Group has a limited land bank and has no concrete plan in expanding its land bank; (c) given the scarcity of land supply in Hong Kong, PCPD will continue to face difficulties in securing large-scale sites with suitable development potential which meet the investment and development criteria of PCPD; (d) business activities other than property development account for less than 10% of the PCPD Group's turnover and the PCPD Group has no clear intentions to expand such businesses or diversify into business activities other than property development; and (e) recent acquisition of property interests in the rest of Asia constitutes only a small component of its total assets, we are of the view that it would be challenging for the PCPD Group to replicate its historical financial performance after the revenue from the units pre-sold are fully recognised.

¹ As at 31 December, 2007, the PCPD Group also had certain property interests in the Paramount Building in Chai Wan, Hong Kong, which was subsequently contracted to be sold (through the disposal of certain subsidiaries) to a wholly-owned subsidiary of PCCW for a total consideration of HK\$51 million, and the transaction is expected to be completed by 31 March, 2008 (please refer to the announcement of PCPD dated 18 February, 2008 for further details).

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(iii) NTAV and Adjusted NTAV

The NTAV of the PCPD Group (as calculated based on the audited consolidated financial statements of the PCPD Group as disclosed in the “Financial Information on the PCPD Group” in Appendix I to the Scheme Document) as at 31 December, 2007 was approximately HK\$7,531 million and can be analysed as follows.

Table 2 — NTAV analysis¹

	As at 31 December, 2007	
	<i>HK\$ million</i>	<i>% of the total assets</i>
Properties under development / held for sale	9,928	48.8%
Investment properties	4,153	20.4%
Properties held for development	816	4.0%
Property and property-related assets	14,897	73.2%
Cash and cash equivalents, restricted cash and short-term deposits	2,440	12.0%
Sales proceeds held in stakeholders' accounts	2,425	11.9%
Trade and other receivables	358	1.8%
Other assets	239	1.2%
Total assets	20,359	100.0% ²
Less: Borrowings	(2,013)	
Amount payable to the Hong Kong Government under the Cyberport Project Agreement	(6,919)	
Other liabilities	(3,803)	
NAV	7,624	
Less: Goodwill	(93)	
NTAV	7,531	
Total number of issued Shares as at 31 December, 2007	2,407,459,873	
NAV per Share	3.17	
NTAV per Share	3.13	

Notes:

1. The above should be read in conjunction with the “Financial Information on the PCPD Group” in Appendix I to the Scheme Document.
2. Percentages of total assets do not add up to 100.0% due to rounding.

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As illustrated in Table 2 above, the properties and property-related assets represent approximately 73.2% of the PCPD Group's total assets as at 31 December, 2007. Properties under development / held for sale consist mainly of 28 Villa Bel-Air houses (of which one house has been contracted to be sold), 709 residential units and 744 carpark spaces of Bel-Air No. 8 (of which 707 residential units and 740 carpark spaces have been pre-sold), the telephone exchange redevelopment project in Sheung Wan and Pacific Century Place II in Beijing. Investment properties consist of Pacific Century Place I in Beijing and the property interest in Paramount Building, which has been contracted to be sold with completion expected by 31 March, 2008. Properties held for development consist of the PCPD Group's recently acquired property interests in Japan and Thailand.

As noted in Appendix II to the Scheme Document, the property interests of the PCPD Group have been valued by Savills, an independent professional property valuer, as at 29 February, 2008. According to the property valuation report set out in Appendix II to the Scheme Document, in terms of market value attributable to the PCPD Group as at 29 February, 2008, approximately 41.4% of the property interests of the PCPD Group are located in Hong Kong and approximately 51.4% are located in Mainland China with the remaining of approximately 7.2% located in Japan and Thailand.

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Set out below is a statement of Adjusted NAV and Adjusted NTAV, which has been calculated based on the audited consolidated financial statements of the PCPD Group as disclosed in the “Financial Information on the PCPD Group” in Appendix I to the Scheme Document. The following table should be read in conjunction with the paragraph headed “Statement of Adjusted NAV and Adjusted NTAV” in Appendix I to the Scheme Document.

Table 3 — Statement of Adjusted NAV and Adjusted NTAV

	<i>HK\$ million</i>
NAV as at 31 December, 2007	7,624
Adjustments:	
<ul style="list-style-type: none"> • Net surplus arising from the revaluation of the PCPD Group’s interests in properties, including those properties under development, properties held for development/for sale and investment properties, as at 31 December, 2007¹ • Potential tax liability² • Note adjustment³ 	<div style="display: flex; justify-content: flex-end;"> <div style="margin-right: 10px;">1,023</div> <div style="margin-right: 10px;">(221)</div> <div style="margin-right: 10px;">(607)</div> <hr style="width: 100%;"/> </div>
Adjusted NAV	7,819
Less: Goodwill	(93)
Adjusted NTAV	<u>7,726</u>
Total number of issued Shares as at the Latest Practicable Date	<u>2,407,459,873</u>
Adjusted NAV per Share	<u>HK\$3.25</u>
Adjusted NTAV per Share	<u>HK\$3.21</u>

Sources: The PCPD Group and Appendix I to the Scheme Document

Notes:

1. The net surplus is arrived at after deducting the carrying amount of properties under development, properties held for development/for sale and investment properties as reflected in the audited consolidated financial statements of PCPD Group for the year ended 31 December, 2007 from the revalued amount (please refer to the “Property Valuation of the PCPD Group” set out in Appendix II to the Scheme Document for further details).
2. This amount represents, for the PCPD Group’s properties under development and completed properties held for sale that are located in Hong Kong, the calculated tax liability of approximately HK\$221 million which may arise if such property interests were to be sold at the revalued amount during the year ending 31 December, 2008 at a Hong Kong profits tax rate of 16.5% in accordance with Rule 11.3 of the Takeovers Code (subject to the approval by the Legislative Council in respect of the proposed reduction in Hong Kong profits tax rate from 17.5% to 16.5% starting from the fiscal year 2008/2009).
3. This represents the difference between the redemption amount of the Note which includes the principal value of HK\$2,420 million, accrued interest of approximately HK\$8 million, and proportionate redemption premium of approximately HK\$192 million for the period from 10 May, 2004 up to 30 April, 2008, in accordance with the terms and conditions of the Note dated 29 December, 2006 and the carrying amount of the Note as stated in the audited consolidated financial statements of the PCPD Group for the year ended 31 December, 2007, of approximately HK\$2,013 million.

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The above adjustments mainly reflect an upward adjustment of the net surplus arising from the revaluation of the property interests held by the PCPD Group, as well as downward adjustments of potential tax liability arising from the PCPD Group's property under development and held for sale in Hong Kong in the event that the property interests are sold at revaluation price, and the difference between the redemption amount and the carrying amount of the Note.

(iv) Analysis of the Offer Price

The Offer Price of HK\$2.85 per Scheme Share represents:

- a premium of approximately 26.1% over the closing price of HK\$2.26 per Share as quoted on the Stock Exchange on the Pre-Announcement Last Trading Day;
- a premium of approximately 27.8% over the average closing price of approximately HK\$2.23 per Share based on the daily closing prices as quoted on the Stock Exchange over the five trading days up to and including the Pre-Announcement Last Trading Day;
- a premium of approximately 19.2% over the average closing price of approximately HK\$2.39 per Share based on the daily closing prices as quoted on the Stock Exchange over the 30 trading days up to and including the Pre-Announcement Last Trading Day;
- a premium of approximately 15.4% over the average closing price of approximately HK\$2.47 per Share based on the daily closing prices as quoted on the Stock Exchange over the 120 trading days up to and including the Pre-Announcement Last Trading Day;
- a discount of approximately 10.1% to the audited consolidated NAV per Share of approximately HK\$3.17 as at 31 December, 2007;
- a discount of approximately 8.9% to the consolidated NTAV per Share of approximately HK\$3.13 as at 31 December, 2007;
- a discount of approximately 11.2% to the Adjusted NTAV per Share of approximately HK\$3.21;
- an implied price-to-earnings ratio ("PER") of approximately 8.7 times the basic earnings per Share of HK\$0.3259 for the year ended 31 December, 2007; and
- is the same as the closing price of HK\$2.85 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

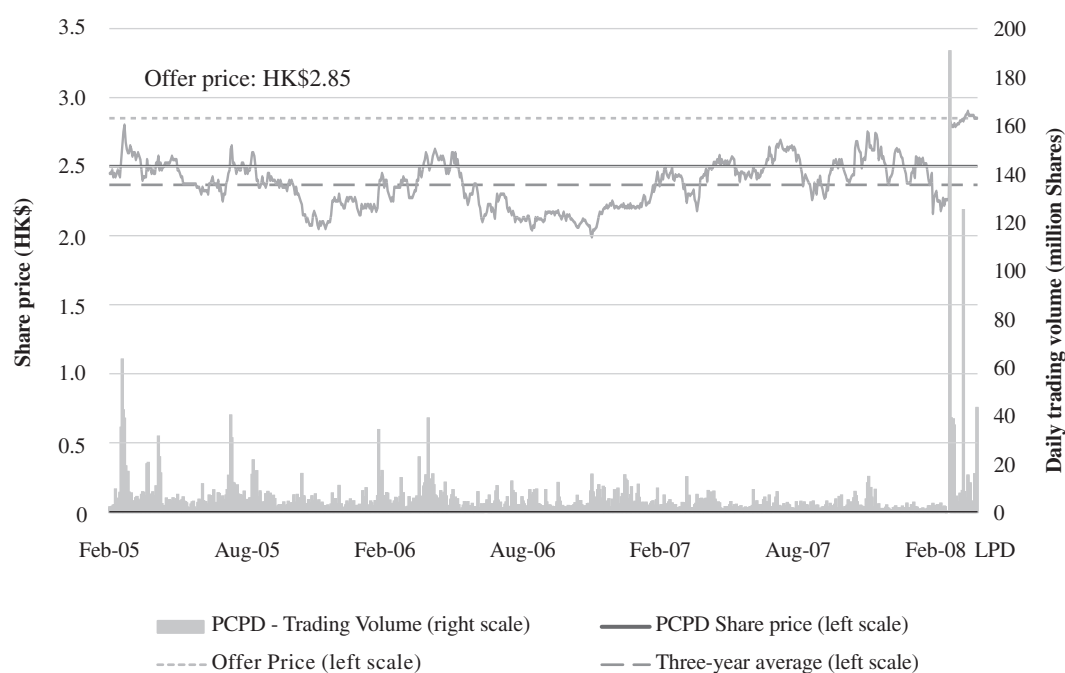


We have analysed the Offer Price in this section by reviewing: (a) the historical Share price performance; (b) the price to NTAV and Adjusted NTAV of the PCPD Group; (c) PER of the Shares; (d) trading multiples of companies comparable to PCPD; and (e) recent privatisation of property and property-related companies in Hong Kong. In analysing the Offer Price, we are of the view that the analysis on the price to NTAV to be the most important and appropriate valuation benchmark for property and property-related companies.

(a) Historical Share price performance

The graph below illustrates the three-year average closing price of the Shares for the period from 7 February, 2005 up to and including the Pre-Announcement Last Trading Day (“Three-Year Period”), and the daily closing prices and trading volume of the Shares from 7 February, 2005 and up to and including the Latest Practicable Date.

Chart 1 — Daily closing price and trading volume of the Shares



Source: Bloomberg

As illustrated in Chart 1 above, during the Three-Year Period, the Shares had been trading at a relatively stable level within a range of HK\$1.99 (closing price on 31 October, 2006) and HK\$2.80 (closing price on 1 March, 2005) per Share and at an average price of approximately HK\$2.37 per Share.

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The table set out below is a summary of the highest, lowest and average closing prices of the Share and the number of trading days on which the closing price of the Share was above the Offer Price from 7 February, 2007 up to and including the Pre-Announcement Last Trading Day (the “One-Year Period”) and during the Three-Year Period.

Table 4 — Trading performance

	One-Year Period	As at	Three-Year Period	As at
Highest closing price	HK\$2.75	29 October, 2007	HK\$2.80	1 March, 2005
Lowest closing price	HK\$2.16	22 January, 2008	HK\$1.99	31 October, 2006
Average closing price	HK\$2.47		HK\$2.37	
Number of trading days in the period closed above the Offer Price	0 day		0 day	

Source: Bloomberg

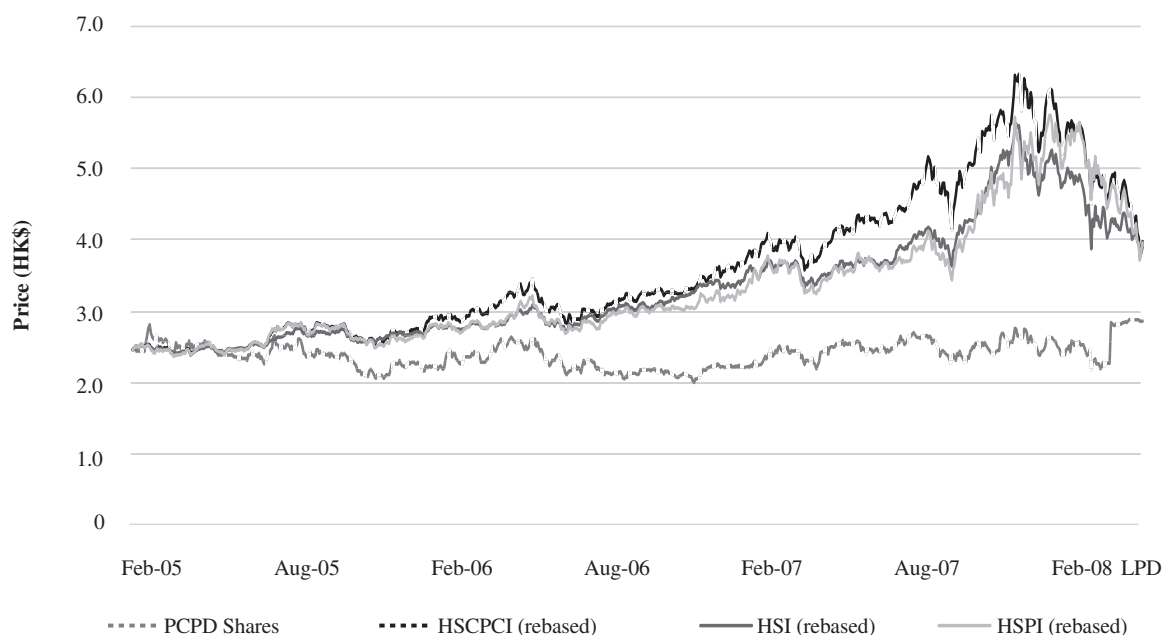
As illustrated in Chart 1 and Table 4 above, the Shares had consistently closed below the Offer Price during the Three-Year Period. The Offer Price of HK\$2.85 is approximately 3.6% higher than the highest closing price of HK\$2.75 per Share during the One-Year Period and approximately 1.80% higher than the highest closing price of HK\$2.80 per Share during the Three-Year Period. In addition, the Offer Price is approximately 15.4% higher than the average closing price of HK\$2.47 per Share during the One-Year Period and approximately 20.3% higher than the average closing price of HK\$2.37 per Share during the Three-Year Period.

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In addition, we have compared the Share price performance against the HSI, the Hang Seng Composite Property and Construction Index (the “HSCPCI”) and the HSPI during the period from 7 February, 2005 and up to and including the Latest Practicable Date. We have used the HSI, HSCPCI and HSPI in our comparison as HSI is a common indicator of the trading performance of the stock market in Hong Kong and HSCPCI and HSPI are common indicators of the trading performance of the property and property-related companies listed in Hong Kong.

Chart 2 — Performance of the Shares versus major indices in Hong Kong



Source: Bloomberg

As demonstrated in Chart 2 above, the performance of the Shares has significantly underperformed the HSI, HSCPCI and HSPI during the period. The overall stock market in Hong Kong, as illustrated by the HSI, and the property and property-related sector, as illustrated by the HSCPCI and HSPI, have experienced significant growth in 2007, notwithstanding the decline since the end of 2007 before reaching the current level. Therefore, on a general basis, the stable price performance of the Shares suggests an investment in PCPD would have achieved returns lower than the average return on investments in companies included in the HSI, HSCPCI and HSPI.

(b) Price to NTAV and Adjusted NTAV

The Offer Price of HK\$2.85 per Share represents:

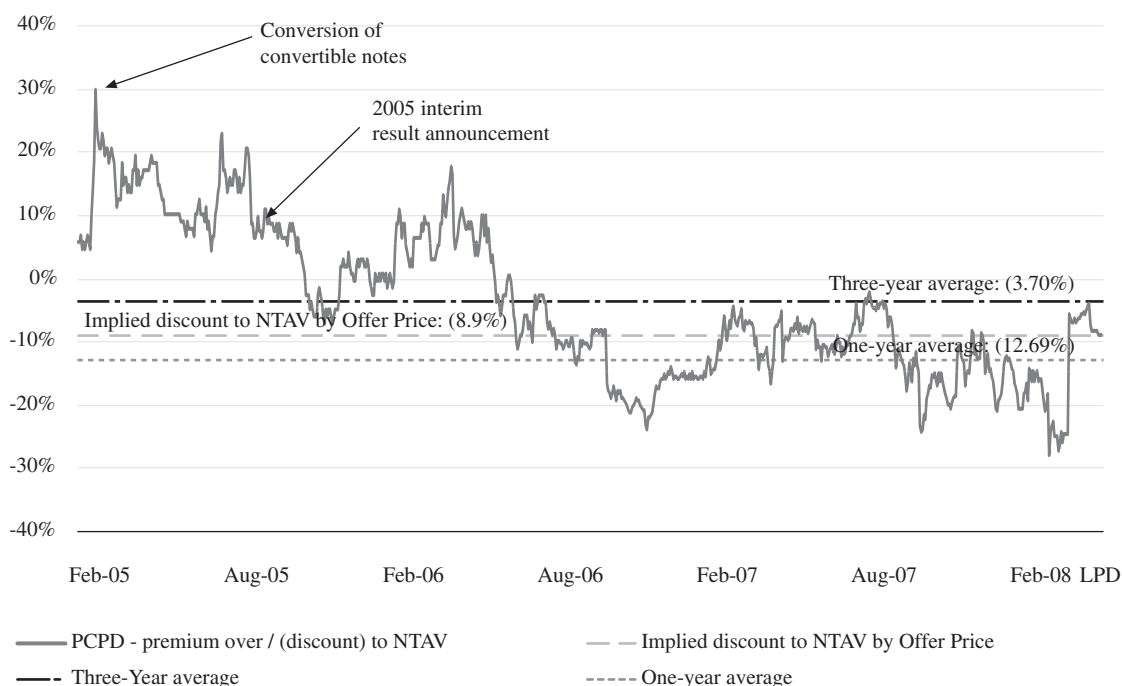
- a discount of approximately 8.9% to the consolidated NTAV per Share of approximately HK\$3.13 as at 31 December, 2007; and
- a discount of approximately 11.2% to the Adjusted NTAV per Share of approximately HK\$3.21 as at 31 December, 2007.

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We have compared the historical trading performance of the Shares with the corresponding NTAV per Share during the Three-Year Period and up to and including the Latest Practicable Date, and the premium over/discount to NTAV and Adjusted NTAV implied by the Offer Price, which is set out in Chart 3 below.

Chart 3 — Price to NTAV analysis



Sources: Bloomberg and audited consolidated financial statements of the PCPD Group

Note: The NTAV as at 31 December, 2004 (as restated) was extracted from the audited consolidated financial statements of the PCPD Group for the year ended 31 December, 2005 after taking into consideration the retrospective effects on the adoption of certain new accounting standards in 2005. Please refer to the audited consolidated financial statements of the PCPD Group for the year ended 31 December, 2005 for more details. In addition, for the purpose of our analysis, we have also adjusted the number of outstanding Shares following the issuance of new Shares from the conversion of a convertible note, effective 1 March, 2005

As illustrated in Chart 3 above, the Shares had been trading at a discount to NTAV since 7 June, 2006, with an average discount to NTAV of approximately 12.7% and 3.7% during the One-Year Period and Three-Year Period respectively. We also note that the discount to NTAV as at 31 December, 2007 and Adjusted NTAV per Share implied by the Offer Price of approximately 8.9% and 11.2% respectively was lower than the average trading discount to NTAV during the One-Year Period.

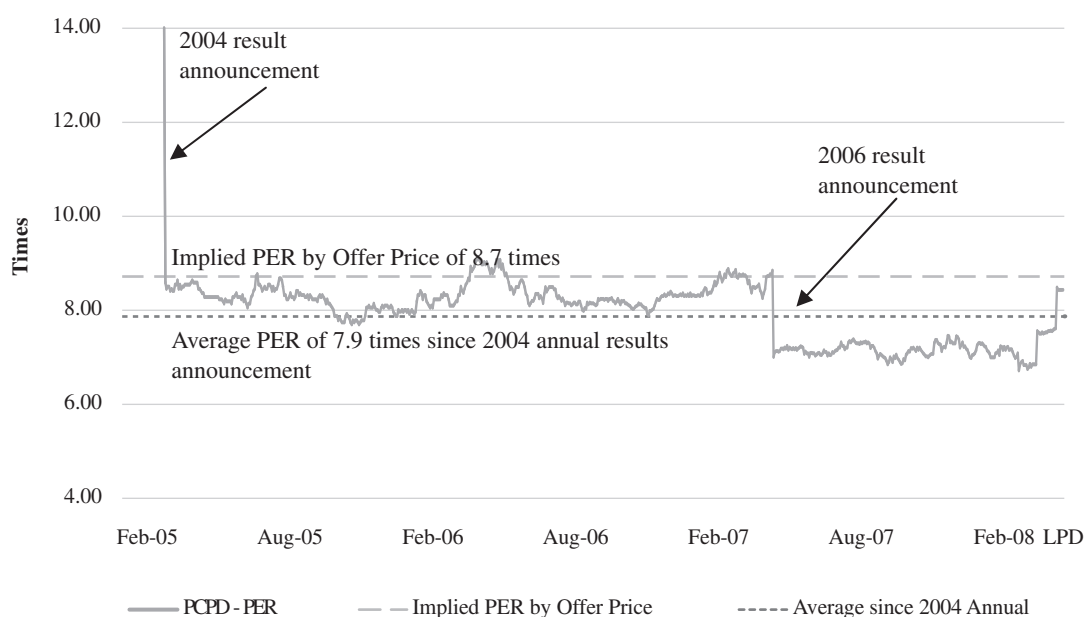
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(c) *PER of the Shares*

Chart 4 below shows the PER of the Shares (computed based on the historical closing Share price and the then published earnings per Share) for the period from 7 February, 2005 up to and including the Latest Practicable Date and the average PER of the Shares for the Three-Year Period, as well as the PER implied by the Offer Price.

Chart 4 — PER



Sources: Bloomberg and audited consolidated financial statements of the PCPD Group

The PER implied by the Offer Price of approximately 8.7 times is higher than the average PER of approximately 7.9 times since the announcement of annual results for the year ended 31 December, 2004 (when the PCPD Group changed its year end date from 31 March to 31 December and incorporated the financial results of its property business) on 31 March, 2005 up to and including the Pre-Announcement Last Trading Day.



(d) *Comparable trading companies*

We have reviewed the trading multiples of companies comparable to the PCPD Group (the “Comparable Companies”). Since the majority of the PCPD Group’s turnover was derived from property development and investment in Hong Kong, the Comparable Companies we have chosen are companies listed on the Stock Exchange and whose principle activities include property development and investment in Hong Kong. In selecting the Comparable Companies, we have taken into account their respective sizes, in terms of market capitalisation and their business activities. In particular, we have reviewed all the property and property-related companies listed on the Stock Exchange with market capitalisation between HK\$2,500 million and HK\$10,000 million (as at the Latest Practicable Date), and we have selected those with a significant proportion of their total revenue generated from property-related businesses in Hong Kong (based on their latest published consolidated financial statements as at the Latest Practicable Date) for the purpose of our analysis. We believe these criteria would highlight companies which provide an appropriate comparison to PCPD. The companies we have selected based on the criteria set out above are HKR International Limited, Liu Chong Hing Investment Limited, Winsor Properties Holdings Limited and Hong Kong Ferry (Holdings) Company Limited (the “Primary Comparable Companies”).

In addition, we have also reviewed property and property-related companies listed in Hong Kong with market capitalisation between HK\$10,000 million and HK\$15,000 million (as at the Latest Practicable Date), with a significant portion of their total revenue generated from property-related businesses in Hong Kong (based on their latest published consolidated financial statements as at the Latest Practicable Date), as a supplementary reference to our analysis. Under this review, we have identified only one company that fulfils our criteria, namely Wheelock Properties Limited (“Wheelock Properties” or the “Secondary Comparable Company”). However, we note that, according to the Wheelock Properties’ annual report for the year ended 31 March, 2007, whilst revenue from property development and investment constituted over 50% of its total revenue, the proportion of revenue from property investment outweighed that of property development. In addition, the market capitalisation of Wheelock Properties is also significantly larger than that of PCPD. Therefore, the results of comparison between the trading performance of the shares of Wheelock Properties and the Shares should be considered as a secondary reference only.

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We have compared the discount to NTAV and PER implied by the Offer Price to those of the Comparable Companies, and our analysis is summarised in the following table.

Table 5 — Comparable Companies trading multiples

	Stock code	Closing share price ¹ (HK\$)	Market capitalisation ¹ (HK\$ million)	Last published NTAV per share (HK\$)	Last published consolidated NTAV (HK\$ million)	Premium over/ (discount to) NTAV per share (%)	PER (Times)
Primary Comparable Companies							
HKR International Limited ²	480	4.90	6,616	7.12	9,611	(31.2)	5.5
Liu Chong Hing Investment Limited ³	194	9.00	3,407	15.67	5,931	(42.6)	13.1
Winsor Properties Holdings Limited ²	1036	13.80	3,584	21.75	5,649	(36.6)	4.4
Hong Kong Ferry (Holdings) Company Limited ³	50	7.35	2,619	10.34	3,683	(28.9)	6.8
Simple average						(34.8)	7.5
Secondary Comparable Company							
Wheelock Properties Limited ⁴	49	6.30	13,039	11.22	23,224	(47.6)	7.6
PCPD under the Proposal	432	2.85	6,861	3.13	7,531	(8.9)	8.7

Sources: Bloomberg and the latest published consolidated financial statements of the respective companies

Notes:

- As at the Latest Practicable Date
- Last published NTAV per share and last published consolidated NTAV as at 30 September, 2007. PER based on basic earnings per share for the year ended 31 March, 2007
- Last published NTAV per share and last published consolidated NTAV as at 31 December, 2007. PER based on basic earnings per share for the year ended 31 December, 2007
- Last published NTAV per share and last published consolidated NTAV as at 31 December, 2007. PER based on basic earnings per share for the year ended 31 March, 2007

As illustrated in Table 5 above, the discount to NTAV implied by the Offer Price of approximately 8.9% is lower than the discount to NTAV per share of all the Primary Comparable Companies and the PER implied by the Offer price of approximately 8.7 times is within the range of the PER of Primary Comparable Companies.

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(e) *Recent privatisation of property and property-related companies in Hong Kong*

We have reviewed all privatisation proposals announced and completed since 1 January, 2003 up to and including the Latest Practicable Date for property and property-related companies listed on the Stock Exchange. We believe this period captures appropriately recent premium and / or discount applied to privatisation transactions of property and property-related companies in Hong Kong. However, we are of the view that results of privatisation transactions in 2003 may have been affected by the unfavourable market environment in 2003, and should only be considered as a supplementary reference to the analysis. Therefore, we consider the three privatisation precedents for 2003 shown in Table 6 below as secondary comparables (“Secondary Precedents”), and the three privatisation precedents since 1 January, 2004 up to and including the Latest Practicable Date as primary comparables (“Primary Precedents”). Our analysis is summarised in the following table.

Table 6 — Recent privatisation of property and property related companies in Hong Kong

Company	Stock code	Date of announcement	Offer price (HK\$)	Last trading day (%)	Premium over/(discount to) average closing share price prior to announcement			Premium over/ (discount to) audited adjusted NTAV per share	
					5 days (%)	30 days (%)	120 days (%)	NTAV per share (%)	NTAV per share (%)
Primary Precedents									
Shimao International Holdings Limited	649	19 Apr 2007	1.05	50.0%	49.1%	45.6%	41.8%	38.2%	(19.8%)
Henderson China Holdings Ltd	246	19 May 2005	8.00	66.7%	61.6%	64.3%	76.2%	(42.7%)	(36.1%)
The Kwong Sang Hong International Ltd	189	4 Nov 2004	1.25	5.0%	8.5%	36.2%	66.5%	(7.0%)	(31.7%)
Simple average (2004-2007)				40.6%	39.7%	48.7%	61.5%	(3.8%)	(29.2%)
Secondary Precedents									
Pacific Concord Holdings Ltd	438	26 May 2003	0.65	51.2%	55.1%	60.8%	49.2%	(75.2%)	(64.5%)
Oxford Properties & Finance Ltd	220	21 May 2003	9.00	(4.3%)	0.2%	2.5%	4.3%	(21.1%)	(21.7%)
Top Glory International Holdings Ltd	268	5 May 2003	0.74	72.1%	80.0%	75.4%	80.0%	(48.6%)	(44.8%)
Simple average (2003)				39.7%	45.1%	46.2%	44.5%	(48.3%)	(43.7%)
Simple average (2003-2007)				40.1%	42.4%	47.5%	53.0%	(26.1%)	(36.4%)
PCPD under the Proposal	432	13 Feb 2008	2.85	26.1%	27.8%	19.2%	15.4%	(8.9%)	(11.2%)

Sources: Stock Exchange website and circulars of the respective companies

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Based on the Primary Precedents shown in Table 6 above, the average discount to audited NTAV and Adjusted NTAV per share was approximately 3.8% and 29.2%, while the Offer Price implied a discount of approximately 8.9% and 11.2% to the NTAV and Adjusted NTAV per share of PCPD respectively. In terms of comparison between the offer prices and the pre-announcement historical average closing prices of one, five, 30 and 120 trading days, the premium implied by the Offer price is below the average premium offered by the Primary Precedents and the Secondary precedents.

3. Dividend yield

The following table sets out the dividend per Share, dividend payout ratio and the dividend yield of the PCPD Group for the three financial years ended 31 December, 2007.

Table 7 — Dividend yield of PCPD versus HSCPCI

For the financial year ended 31 December	2007	2006	2005	Average for the period under review¹
Earnings per Share ² (HK cents)	32.59	40.16	25.77	32.84
Dividend per Share (HK cents)	1.50	7.00	7.00	5.17
Dividend payout ratio ³	4.60%	17.4%	27.2%	
Share price at the financial year end date (HK\$)	2.57	2.21	2.15	
Dividend yield based on the Share price on the financial year end date	0.58%	3.17%	3.26%	2.34%
Dividend yield based on the closing Share price on the Latest Practicable Date of HK\$2.85 per Share	0.53%			
Implied dividend yield based on the Offer Price of HK\$2.85 per Share	0.53%			
Weighted average dividend yield for the HSCPCI as at the year end date	2.17%	2.00%	2.64%	2.27%
Weighted average dividend yield for the HSCPCI as at 29 February, 2008	2.57%			

Sources: Bloomberg, audited consolidated financial statements of the PCPD Group and HSI Services Limited

Notes:

1. Average of the figures in respect of each item shown in the table
2. Earnings per Share based on the respective published audited consolidated financial statements of the PCPD Group
3. Based on dividend per Share paid for a financial year and divided by basic earnings per Share for that financial year based on the respective published audited consolidated financial statements of the PCPD Group

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As illustrated in Table 7 above, the dividend per Share has been constant at HK\$0.07 per Share for the two years ended 31 December, 2005 and 2006, and an interim dividend of HK\$0.015 per Share was declared and paid for the six months ended 30 June, 2007. We note from PCPD's 2007 annual results announcement that there will be no final dividend for the year ended 31 December, 2007. The dividend yield based on the Share price as at the date of financial year end of 31 December remained constant at approximately 3.26% and 3.17% for the two years ended 31 December, 2005 and 2006 respectively. The average dividend yield for the three years ended 31 December, 2005, 2006 and 2007 of approximately 2.34% was higher than the average of approximately 2.27% of the HSCPCI for the same period.

Based on the comparison above, we note that an investment in the Shares has been offering a higher dividend yield than the average dividend yield offered by the constituent companies of the HSCPCI for the two years ended 31 December, 2005 and 2006. However, notwithstanding the higher dividend yield in the two years ended 31 December, 2005 and 2006, there was only interim dividend and no final dividend for the year ended 31 December, 2007. Given the small number of property development projects that the PCPD Group is currently undertaking and the challenges faced by PCPD in obtaining suitable large scale sites for property development in Hong Kong, it should be noted that there is no assurance as to whether there will be a similar dividend paid by PCPD, and/or that the dividend yield of the Share will remain at a level similar to that in the two years ended 31 December, 2005 and 2006 as shown in Table 7 above in the future.

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4. Trading volume

The table below sets out the trading volume of the Shares per month, the monthly trading volume as a percentage of the issued share capital of PCPD and the monthly trading volume as a percentage of the Shares held by the public for the period 1 January, 2007 to 29 February, 2008.

Table 8 — Liquidity analysis of the Shares

	Monthly trading volume of the Shares as a percentage of total issued share capital of PCPD <i>(million shares)</i>	Monthly trading volume of the Shares as a percentage of public float of PCPD
2007		
January	71.7	2.99%
February	48.0	2.00%
March	91.9	3.83%
April	52.8	2.20%
May	38.8	1.62%
June	62.4	2.60%
July	49.1	2.04%
August	48.7	2.03%
September	47.3	1.97%
October	91.7	3.81%
November	48.3	2.01%
December	30.7	1.27%
2008		
January	33.5	1.39%
February (for reference only)	360.4	14.97%
Average monthly trading volume (1 January 2007 to 31 January 2008)	55.0	2.29%

Source: Bloomberg

As illustrated in Table 8 above, before the Announcement, we note that the monthly trading volume of the Shares ranged from approximately 30.7 million Shares to approximately 91.9 million Shares for the period 1 January, 2007 to 31 January, 2008. The trading volume of the Shares increased substantially to 360.4 million Shares in February 2008 following the release of the Announcement. The average monthly trading volume of the Shares for the period from 1 January, 2007 to 31 January, 2008 was approximately 55.0 million Shares, representing approximately 2.29% of the total issued share capital of PCPD, or approximately 5.96% of the public float of PCPD.

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In addition to the above analysis, we have also compared the trading volume of the Shares with those of the Primary Comparable Companies for the period 1 January, 2007 to 31 January, 2008 (being the calendar month prior to the Announcement), which is set out in the table below.

Table 9 — Liquidity of Primary Comparable Companies

	Average monthly trading volume of the shares as a percentage of public float from 1 January, 2007 to 31 January, 2008
HKR International Limited	9.61%
Liu Chong Hing Investment Limited	1.52%
Winsor Properties Holdings Limited	0.81%
Hong Kong Ferry (Holdings) Company Limited	0.35%
Simple average	3.07%
PCPD	5.96%

Source: Bloomberg

As shown in Table 9 above, the trading volume of the Shares as a percentage of the public float is within the range of that of the Primary Comparable Companies.

SUMMARY

Having considered the above principal factors and reasons, we draw your attention to the following in arriving at our recommendation:

- (a) The financial performance of the PCPD Group is dependent to a significant extent on the performance of the Bel-Air residential development and we have seen a decrease in revenue for the year ended 31 December, 2007, primarily due to the reduction of units sold and completed in the Bel-Air residential development. With the small number of property development projects currently undertaken by the PCPD Group, and no concrete plan to expand its land bank or other business activities, it is unlikely that the level of historical financial performance could sustain after the revenue from the units pre-sold are fully recognised — unless the PCPD Group is able to significantly expand its land bank at a scale and profit margin that is comparable to the Cyberport project (including the Bel-Air residential development), notwithstanding there will be a time-lag to develop and materialise such a land bank;

LETTER FROM ROTHSCHILD



- (b) In analysing the Offer Price, we are of the view that the analysis of price to Adjusted NTAV is the most important and appropriate valuation benchmark for property and property-related companies. In this regard, we note that the Offer Price implied a discount of approximately 11.2% to the Adjusted NTAV per Share of approximately HK\$3.21, which is lower than the average discount to adjusted NTAV of the Primary Precedents of approximately 29.2%;
- (c) The Offer Price implied a discount to NTAV of approximately 8.9% as at 31 December, 2007, which is lower than the average discount to NTAV of those of the Primary Comparable Companies of approximately 34.8%;
- (d) The Offer Price is higher than the closing Share prices during the entire Three-Year Period and approximately 1.8% higher than the highest closing Share price during the Three-Year Period; and
- (e) The Offer Price implied a PER of approximately 8.7 times of the earnings per Share for the year ended 31 December, 2007, which is higher than the average trading PER of PCPD of approximately 7.9 times since the announcement of its annual results for the year ended 31 December, 2004. The PER implied by the Offer Price is within the range of the PER of the Comparable Companies as at the Latest Practicable Date.

FURTHER CONSIDERATIONS

As disclosed in the “Letter from the Board” in the Scheme Document, we note that PCCW indirectly owned approximately 61.53% of the total issued share capital of PCPD as at the Latest Practicable Date, the Directors (other than members of the Independent Board Committee) believe it is unlikely that the Scheme Shareholders will receive any other offer to acquire the Shares from a third party without the approval of PCCW. In addition, we also note that no discussions have taken place (or are taking place) as at the Latest Practicable Date between PCCW and any third party regarding the disposal of any of the Shares held by PCCW through Asian Motion and PCCW has no intention of discontinuing the business of PCPD.

Having considered all the above factors, in addition to the principal factors under the paragraph headed “Principal factors and reasons” in this letter, we are of the view that the Proposal represents an opportunity for the Independent Shareholders to realise their investment in PCPD at the Offer Price under the current highly volatile stock market environment.

LETTER FROM ROTHSCHILD



RECOMMENDATIONS

Having considered the above principal factors and reasons, we consider the terms of the Proposal to be fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution to approve the Scheme at the Court Meeting, as well as to recommend the Independent Shareholders to vote in favour of the special resolution to approve and give effect to the Scheme at the SGM.

Yours very truly,

For and on behalf of

N M Rothschild & Sons (Hong Kong) Limited

Kelvin Chau

Managing Director

Catherine Yien

Director

EXPLANATORY STATEMENT

This explanatory statement constitutes the statement required under Section 100 of the Companies Act.

SCHEME OF ARRANGEMENT TO CANCEL ALL THE SCHEME SHARES IN CONSIDERATION OF THE OFFEROR AGREEING TO PAY THE OFFER PRICE FOR EACH SCHEME SHARE

INTRODUCTION

On 13 February, 2008, the boards of directors of PCCW, the Offeror and PCPD jointly announced that the Offeror had requested the Board to put forward the Proposal to the Scheme Shareholders regarding a proposed privatisation of PCPD by way of the Scheme involving the cancellation of all the Scheme Shares, as a result of which it is intended that PCPD will become an indirect wholly-owned subsidiary of PCCW.

The purpose of this Explanatory Statement is to explain the terms and effects of the Scheme and to provide the Scheme Shareholders with other relevant information in relation to the Scheme, and in particular, to state any material interest of the Directors, whether as Directors or as members or as creditors of PCPD or otherwise, and the effect thereon of the Scheme, insofar as it is different from the effect on the like interests of other persons pursuant to Section 100 of the Companies Act.

The particular attention of the Shareholders is drawn to the following sections of this document: (i) a letter from the Board set out on pages 9 to 17 of this document; (ii) a letter from the Independent Board Committee in connection with the Scheme set out on pages 18 to 19 of this document; (iii) a letter from Rothschild set out on pages 20 to 45 of this document; and (iv) the Scheme set out on pages 167 to 172 of this document.

SUMMARY OF THE SCHEME

The Scheme is to be implemented by way of a scheme of arrangement under Section 99 of the Companies Act.

As at the Latest Practicable Date, there were 2,407,459,873 Shares in issue and the Scheme Shareholders were interested in 926,126,540 Shares, representing approximately 38.47% of the issued share capital of PCPD. At the Offer Price, which was arrived at after taking into account the factors set out in the section headed "Reasons for the Proposal" on pages 55 to 57 of this document, the Proposal values the entire issued share capital of PCPD at approximately HK\$6,861 million.

The amount of cash required in order to effect the Proposal is approximately HK\$2,642 million, including the amount payable to the Scheme Shareholders and the Optionholder. The consideration payable under the Scheme will be financed from available financial resources of the PCCW Group. Citigroup, the sole financial adviser to PCCW and the Offeror, is satisfied that sufficient financial resources are available to the Offeror for the implementation of the Proposal. In connection with the Proposal, the amount of borrowings of the PCCW Group increases by approximately HK\$2,642 million, reflecting additional drawings under its existing facilities.

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The 2003 Share Option Scheme was approved and adopted on 17 March, 2003. The Shareholders approved the termination of the 2003 Share Option Scheme and the adoption of the 2005 Share Option Scheme at PCPD's annual general meeting held on 13 May, 2005. The 2005 Share Option Scheme became effective on 23 May, 2005 following its approval by the shareholders of PCCW. No further options were granted under the 2003 Share Option Scheme following its termination, but the provisions of such scheme remain in full force and effect with respect to Options granted prior to its termination. No share options have been granted under the 2005 Share Option Scheme since its adoption.

As at the Latest Practicable Date, Options relating to 5,000,000 Shares were outstanding and exercisable under the Share Option Schemes, with an exercise price of HK\$2.375 per Share. The Options are held by Mr. Chung Cho Yee, Mico, a director of PCCW and of a subsidiary of PCPD. Mr. Chung is therefore a connected person of PCCW and PCPD. Mr. Chung has undertaken to the Offeror and PCPD not to exercise any of the Options prior to the Proposal either becoming effective or lapsing and, accordingly, will not be eligible to vote on the Proposal as an Independent Shareholder at the Court Meeting. Conditional upon the Proposal becoming effective and the Optionholder accepting the offer for the cancellation of the Options, the Options held by Mr. Chung will be cancelled and the amount of the offer to cancel an Option will be calculated by deducting the exercise price per Share payable on exercise of an Option from the Offer Price per Share payable under the Scheme. A letter from the Offeror to Mr. Chung setting out the terms of the proposal will be despatched to him on the date of this document.

PCCW-HKT Partners Limited, an indirect wholly-owned subsidiary of PCCW and a person deemed to be acting in concert with the Offeror for the purposes of the Takeovers Code, is the holder of the Note. The Note is convertible into an aggregate of 672,222,222 new Shares at a conversion price of HK\$3.60 per Share. PCCW-HKT Partners Limited has confirmed to PCCW, the Offeror and PCPD that PCCW-HKT Partners Limited will not exercise any of the conversion rights conferred by the Note, and will not transfer the Note or any part thereof, in each case, prior to the Proposal either becoming effective or lapsing. Accordingly, PCCW-HKT Partners Limited will not be eligible to vote on the Proposal as an Independent Shareholder at the Court Meeting. Having regard to the fact that PCCW-HKT Partners Limited is a person acting in concert with the Offeror for the purposes of the Takeovers Code, the Offeror will not make an offer to PCCW-HKT Partners Limited to cancel the conversion rights conferred by the Note and PCCW-HKT Partners Limited has consented to this arrangement.

As at the Latest Practicable Date, apart from the Options and the Note there were no outstanding options, warrants, derivatives or convertible securities issued by PCPD.

As at the Latest Practicable Date, apart from the Options and the Note, there were no outstanding derivatives in respect of securities in PCPD entered into by the Offeror or any person acting in concert with it.

The Proposal will be implemented by way of the Scheme. Following the Effective Date, the listing of the Shares on the Stock Exchange will be withdrawn and PCPD will become an indirect wholly-owned subsidiary of PCCW. The Proposal is conditional upon the fulfilment or waiver, as

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applicable, of the Conditions. All Conditions will have to be fulfilled or waived, as applicable, on or before 31 August, 2008 (or such later date as the Offeror and PCPD may agree and the Court may allow), otherwise the Proposal will lapse. Further announcements on any changes regarding the timetable of the Scheme will be made as and when necessary.

Assuming that the Scheme becomes effective on 9 May, 2008, cheques for cash entitlements under the Scheme are expected to be despatched to the Scheme Shareholders on or before 19 May, 2008.

Settlement of the consideration to which the Scheme Shareholders are entitled under the Scheme will be implemented in full in accordance with the terms of the Scheme without regard to any lien, right of set-off, counterclaim or other analogous right to which PCCW or the Offeror may otherwise be, or claim to be, entitled against any such Scheme Shareholder.

CONDITIONS OF THE PROPOSAL

The Proposal will become effective and binding on PCPD and all Scheme Shareholders subject to the fulfilment or waiver (as applicable) of the following Conditions:

- (a) the approval of the Scheme (by way of poll) by a majority in number of the Scheme Shareholders representing not less than three-fourths in value of the Shares of the Scheme Shareholders, present and voting either in person or by proxy at the Court Meeting, provided that:
 - (i) the Scheme is approved (by way of poll) by the Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by the Independent Shareholders that are voted either in person or by proxy at the Court Meeting; and
 - (ii) the number of votes cast (by way of poll) against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to the Scheme Shares held by the Independent Shareholders;
- (b) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting, in person or by proxy, at the SGM, to approve and give effect to the reduction of the issued share capital of PCPD by cancelling and extinguishing the Scheme Shares and, immediately thereafter, applying the reserve created as a result of the aforesaid cancellation of the Scheme Shares to pay up in full and issue to the Offeror such number of new Shares as is equal to the number of Scheme Shares cancelled;
- (c) the Court's sanction of the Scheme (with or without modifications) under Section 99 of the Companies Act and the delivery to the Registrar of Companies in Bermuda of a copy of the order of the Court for registration;

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- (d) compliance, to the extent necessary, with the procedural requirements of Section 46(2) of the Companies Act and compliance with any conditions imposed under Section 46(2) of the Companies Act in each case in relation to the reduction of the issued share capital of PCPD;
- (e) all Authorisations (if any) in connection with the Proposal having been obtained or made from, with or by (as the case may be) the Relevant Authorities in Bermuda and/or Hong Kong and/or any other relevant jurisdictions;
- (f) all Authorisations (if any) remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any Relevant Authorities which is not expressly provided for, or is in addition to requirements expressly provided for, in relevant laws, rules, regulations or codes in connection with the Proposal or any matters, documents (including circulars) or things relating thereto, in each aforesaid case up to and at the time when the Scheme becomes effective; and
- (g) all necessary consents (other than any that may be required from any member of the PCCW Group) which may be required under any existing contractual obligations of PCPD and/or its subsidiaries being obtained and remaining in full force and effect without modification.

The Offeror reserves the right to waive Condition (g), either in whole or in respect of any particular matter. In the event that Condition (e) and/or Condition (f) is not/are not fulfilled, the Offeror reserves the right to assess the materiality of such non-fulfillment and to waive the fulfillment of any such condition to such extent as it considers appropriate. Conditions (a) to (d) cannot be waived in any event. All of the Conditions will have to be fulfilled or waived, as applicable, on or before 31 August, 2008 (or such other date as the Offeror and PCPD may agree and the Court may allow), otherwise the Proposal will lapse. An announcement will be made by PCCW, the Offeror and PCPD if the Scheme lapses. PCPD has applied for, and the Executive has granted, a waiver from compliance with Rule 15.7 of the Takeovers Code in relation to the Scheme.

Assuming that the Conditions are fulfilled (or, as applicable, waived), it is expected that the Scheme will become effective on or before 9 May, 2008.

Shareholders and/or potential investors should be aware that implementation of the Proposal is subject to the Conditions being fulfilled or waived, as applicable, and thus the Proposal may or may not become effective. Shareholders are advised to exercise caution when dealing in Shares.

SCHEME OF ARRANGEMENT UNDER SECTION 99 OF THE COMPANIES ACT AND COURT MEETING

According to Section 99 of the Companies Act where an arrangement is proposed between a company and its members or any class of them, the Court may, on the application of the company or any member of the company, order a meeting of the members of the company or class of members, as the case may be, to be summoned in such manner as the Court directs.

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It is expressly provided in Section 99 of the Companies Act that if a majority in number representing three-fourths in nominal value of the members or class of members, as the case may be, present and voting either in person or by proxy at the meeting or meetings, as the case may be, summoned as directed by the Court as aforesaid, agree to any arrangement, the arrangement shall, if sanctioned by the Court, be binding on all members or class of members, as the case may be, and also on the company.

THE ADDITIONAL REQUIREMENTS AS IMPOSED BY RULE 2.10 OF THE TAKEOVERS CODE

In addition to satisfying any requirements imposed by law as summarised above, but unless with the consent of the Executive to dispense with compliance or strict compliance thereof, Rule 2.10 of the Takeovers Code requires that the Scheme may only be implemented if:

- (a) the Scheme is approved by at least 75% of the votes attaching to the disinterested Shares that are cast either in person or by proxy at a duly convened meeting of the holders of the disinterested Shares (namely, the Independent Shareholders); and
- (b) the number of votes cast against the resolution to approve the Scheme at such meeting is not more than 10% of the votes attaching to all disinterested Shares (namely, the Shares held by the Independent Shareholders).

BINDING EFFECT OF THE SCHEME

Notwithstanding the fact that there may be a dissenting minority, if the Scheme is approved at the Court Meeting by a majority in number, representing not less than three-fourths in nominal value, of the Scheme Shares held by the Independent Shareholders present and voting in person or by proxy, the Scheme becomes binding on PCPD and all the Scheme Shareholders, and provided that:

- (i) the Scheme is approved (by way of poll) by the Independent Shareholders holding not less than 75% in nominal value of those Scheme Shares that are voted either in person or by proxy at the Court Meeting; and
- (ii) the Scheme is not disapproved (by way of poll) by the Independent Shareholders at the Court Meeting holding more than 10% in nominal value of all the Scheme Shares held by the Independent Shareholders

then, so long as it is sanctioned by the Court, the Offeror will be entitled to, upon fulfillment of the requirements set out in Rule 2.10 of the Takeovers Code or with the consent of the Executive that strict compliance with Rule 2.10 of the Takeovers Code be waived, cause PCPD to: (1) cancel all Scheme Shares whereupon the issued share capital of PCPD shall be reduced from HK\$240,745,987.30 to HK\$148,133,333.30; (2) increase the issued share capital of PCPD to its former amount of HK\$240,745,987.30 by the creation of 926,126,540 new Shares at par for HK\$92,612,654; and (3) apply, on the Effective Date, the credit of HK\$92,612,654 which will arise in its books of account as a result of the said reduction of capital in paying up in full at par the 926,126,540 new Shares which shall be allotted and issued, credited as fully paid, to the Offeror, whereupon all Share certificates

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representing holdings of those Shares cancelled as aforesaid shall cease to have effect as documents of title, and the Offeror will pay the Offer Price of HK\$2.85 per Scheme Share to the Scheme Shareholders for each Scheme Share held by them prior to the said cancellation of the Scheme Shares. Thereupon PCPD shall become an indirect wholly-owned subsidiary of PCCW.

EFFECTS OF THE SCHEME

Shareholding structure

The table below sets out the shareholding structure of PCPD as at the Latest Practicable Date and immediately following implementation of the Scheme:

Shareholders	As at the Latest Practicable Date		Immediately following implementation of the Scheme	
	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>
Asian Motion	1,481,333,333	61.53	1,481,333,333	61.53
Offeror	0	0	926,126,540	38.47
Offeror and parties acting in concert with it	1,481,333,333	61.53	2,407,459,873	100.00
Independent Shareholders	926,126,540	38.47	0	0
Total	<u>2,407,459,873</u>	<u>100.00</u>	<u>2,407,459,873</u>	<u>100.00</u>

Following the Effective Date and the withdrawal of listing of the Shares on the Stock Exchange, PCPD will become an indirect wholly-owned subsidiary of PCCW.

The 2003 Share Option Scheme was approved and adopted on 17 March, 2003. The shareholders of PCPD approved the termination of the 2003 Share Option Scheme and the adoption of the 2005 Share Option Scheme at PCPD's annual general meeting held on 13 May, 2005. The 2005 Share Option Scheme became effective on 23 May, 2005 following its approval by the shareholders of PCCW. No further options were granted under the 2003 Share Option Scheme following its termination, but the provisions of such scheme remain in full force and effect with respect to Options granted prior to its termination. No share options have been granted under the 2005 Share Option Scheme since its adoption.

As at the Latest Practicable Date, Options relating to 5,000,000 Shares were outstanding and exercisable under the Share Option Schemes, with an exercise price of HK\$2.375 per Share. The Options are held by Mr. Chung Cho Yee, Mico, a director of PCCW and of a subsidiary of PCPD. Mr. Chung is therefore a connected person of PCCW and PCPD. Mr. Chung has undertaken to the Offeror and PCPD not to exercise any of the Options prior to the Proposal either becoming effective or lapsing and, accordingly, will not be eligible to vote on the Proposal as an Independent Shareholder at the Court Meeting. Conditional upon the Proposal becoming effective and the Optionholder accepting the

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offer for the cancellation of the Options, the Options held by Mr. Chung will be cancelled and the amount of the offer to cancel an Option will be calculated by deducting the exercise price per Share payable on exercise of an Option from the Offer Price per Share payable under the Scheme. A letter from the Offeror to Mr. Chung setting out the terms of the proposal will be despatched to him on the date of this document.

PCCW-HKT Partners Limited, an indirect wholly-owned subsidiary of PCCW and a person deemed to be acting in concert with the Offeror for the purposes of the Takeovers Code, is the holder of the Note. The Note is convertible into an aggregate of 672,222,222 new Shares at a conversion price of HK\$3.60 per Share. PCCW-HKT Partners Limited has confirmed to PCCW, the Offeror and PCPD that PCCW-HKT Partners Limited will not exercise any of the conversion rights conferred by the Note, and will not transfer the Note or any part thereof, in each case, prior to the Proposal either becoming effective or lapsing. Accordingly, PCCW-HKT Partners Limited will not be eligible to vote on the Proposal as an Independent Shareholder at the Court Meeting. Having regard to the fact that PCCW-HKT Partners Limited is a person acting in concert with the Offeror for the purposes of the Takeovers Code, the Offeror will not make an offer to PCCW-HKT Partners Limited to cancel the conversion rights conferred by the Note and PCCW-HKT Partners Limited has consented to this arrangement.

As at the Latest Practicable Date, apart from the Options and the Note there were no outstanding options, warrants, derivatives or convertible securities issued by PCPD.

As at the Latest Practicable Date, apart from the Options and the Note, there were no outstanding derivatives in respect of securities in PCPD entered into by the Offeror or any person acting in concert with it.

Capital value

The Offer Price represents:

- a premium of approximately 26.1% over the closing price of HK\$2.26 per Share as quoted on the Stock Exchange on the Pre-Announcement Last Trading Day;
- a premium of approximately 27.8% over the average closing price of about HK\$2.23 per Share based on the daily closing prices as quoted on the Stock Exchange over the 5 trading days up to and including the Pre-Announcement Last Trading Day;
- a premium of approximately 19.2% over the average closing price of about HK\$2.39 per Share based on the daily closing prices as quoted on the Stock Exchange over the 30 trading days up to and including the Pre-Announcement Last Trading Day;
- a premium of approximately 15.4% over the average closing price of about HK\$2.47 per Share based on the daily closing prices as quoted on the Stock Exchange over the 120 trading days up to and including the Pre-Announcement Last Trading Day;

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- a premium of approximately 2.5% to the audited consolidated NAV per Share of about HK\$2.78 as at 31 December, 2006; and
- a discount of approximately 10.1% to the audited consolidated NAV per Share of about HK\$3.17 as at 31 December, 2007.

On the basis of the Offer Price, the table below illustrates the change in capital value for the Scheme Shareholders, assuming that the Scheme is implemented.

	On the Pre-Announcement Last Trading Day HK\$	On the Latest Practicable Date HK\$
Consideration receivable (per 1,000 Shares) under the Scheme	2,850	2,850
Value of 1,000 Shares (<i>Note</i>)	2,260	2,850
 This represents an increase of approximately	<u>26.1%</u>	<u>0%</u>

Note: Based on the closing price of the Shares as quoted on the Stock Exchange on the respective dates.

A summary of the closing prices of the Shares on the Stock Exchange (i) on the last trading day of each of the six calendar months preceding the date of the Announcement; (ii) on the Pre-Announcement Last Trading Day; and (iii) on the Latest Practicable Date is set out in Appendix III to this document.

INFORMATION ON THE PCPD GROUP

The PCPD Group is principally engaged in the development and management of premium property and infrastructure projects, as well as investment in premium-grade buildings, in the Asia-Pacific region. The PCPD Group holds the development rights for the Cyberport project which is owned by the Government of Hong Kong and includes the prestigious Bel-Air residential development. While the PCPD Group continues to explore high end development potential in Hong Kong, it also actively pursues opportunities in the property market of Mainland China and seeks investment and development opportunities with growth potential in other parts of the Asia-Pacific region.

On 18 February, 2008, PCPD announced that it had entered into two agreements with PCCW-HKT Telephone Limited, an indirect wholly-owned subsidiary of PCCW, for the disposal of the entire issued share capitals of two subsidiaries, at a total cash consideration of HK\$51,000,000. The disposal, which constitutes a connected transaction for PCPD under the Listing Rules, is expected to be completed on 31 March, 2008. The management of PCPD continues to review strategic options with regard to the businesses of the PCPD Group. These strategic options may include, but may not be limited to, the restructuring or the rationalisation of one or more of the businesses of the PCPD Group.

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A summary of the audited consolidated financial results of the PCPD Group for each of the three years ended 31 December, 2005, 2006 and 2007 is set out below:

	(Audited)		
	For the year ended		
	31 December,		
	2005	2006	2007
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Turnover	5,127	7,263	3,134
Profit before taxation	710	1,160	870
Profit after taxation/profit attributable to equity holders of PCPD	597	965	784

The audited consolidated NAV of the PCPD Group as at 31 December, 2007 and as at 31 December, 2006 were approximately HK\$7,624 million and HK\$6,683 million, respectively.

Your attention is also drawn to Appendix I to this document which sets out the “Financial Information on the PCPD Group”. On 6 March, 2008, PCPD published a preliminary announcement of its audited financial results for the year ended 31 December, 2007. The audited consolidated financial statements for the year ended 31 December, 2007 are reflected in the “Financial Information on the PCPD Group” set out in Appendix I to this document.

Based on the closing price of HK\$2.85 per Share and the total number of Shares in issue as at the Latest Practicable Date, the market capitalisation of PCPD as at the Latest Practicable Date was approximately HK\$6,861 million.

Dividends

PCPD declared an interim dividend of 1.5 Hong Kong cents per Share for the six months ended 30 June, 2006 (which was paid on 13 October, 2006) and a final dividend of 5.5 Hong Kong cents per Share for the year ended 31 December, 2006 (which was paid on 23 May, 2007). It declared an interim dividend of 1.5 Hong Kong cents per Share for the six months ended 30 June, 2007 (which was paid on 25 September, 2007). It has not recommended any final dividend for the year ended 31 December, 2007.

Scheme Shareholders would be entitled to retain any dividend or other distribution which has been or may be declared in respect of the Scheme Shares and which has a Record Date before the Scheme becomes effective. As at the Latest Practicable Date, no such dividend or other distribution had been declared.

INFORMATION ON THE OFFEROR AND THE PCCW GROUP

The Offeror was incorporated in the British Virgin Islands with limited liability and is an indirect wholly-owned subsidiary of PCCW. At present, the Offeror has no trading activities and does not hold any shares.

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PCCW is the premier telecommunications provider in Hong Kong and a world-class player in information and communications technologies. As the provider of Hong Kong's first quadruple-play experience, PCCW offers a range of innovative media content and services across four platforms - fixed-line, broadband Internet access, TV and mobile. In addition, PCCW meets the sophisticated needs of the international business community, while supporting network operators with cutting-edge technical services and handling large-scale IT outsourcing projects for public and private sector organisations.

INTENTION OF THE OFFEROR WITH REGARD TO PCPD

It is the intention of the Offeror to maintain the existing business of the PCPD Group upon the successful privatisation of PCPD, and the Offeror has no intention to seek a listing of the Shares on any stock exchange in the foreseeable future. The Offeror does not have any intention to introduce any major changes to the existing operations and management of the PCPD Group, nor does it have any intention to make any changes to the continued employment of the PCPD Group's employees. However, PCCW or the Offeror may from time to time review strategic options with regard to the businesses of the PCPD Group. These strategic options may include, but not be limited to, the restructuring or the rationalisation of one or more of the businesses of the PCPD Group.

REASONS FOR THE PROPOSAL AND BENEFITS TO SCHEME SHAREHOLDERS

Reasons for the Proposal

The management of PCCW has noted that the share price of PCPD has underperformed both the Hang Seng Index and the Hang Seng Property Index since the transfer of the PCCW Group's Cyberport development rights, property investments and facilities management operations to PCPD in 2004. The Shares have also been trading at a significant discount to NAV of PCPD. Based on PCPD's published unaudited interim financial statements as at 30 June, 2007, the unaudited consolidated NAV per Share was approximately HK\$3.03. The Shares have therefore traded at discounts of approximately 25.4%, 23.8% and 21.5% to the aforesaid unaudited consolidated NAV of approximately HK\$3.03 per Share (or approximately 28.7%, 27.1% and 24.9% to the latest audited consolidated NAV per Share of approximately HK\$3.17 as at 31 December, 2007), compared with the closing price of HK\$2.26 per Share on the Pre-Announcement Last Trading Day, the latest one-month (up to the Pre-Announcement Last Trading Day) volume-weighted average price of approximately HK\$2.31 per Share, and the latest two-month (up to the Pre-Announcement Last Trading Day) volume-weighted average price of approximately HK\$2.38 per Share, respectively. Since the publication of the Announcement, PCPD has published its preliminary results for the year ended 31 December, 2007. The audited consolidated financial statements for the year ended 31 December, 2007 are included in the "Financial Information on the PCPD Group" set out in Appendix I to this document, and Savills has produced a valuation report on all the property interests held by the PCPD Group, a copy of which is reproduced in Appendix II to this document. Based on the audited consolidated financial statements of PCPD as at 31 December, 2007, the audited consolidated NAV per Share is approximately HK\$3.17.

Furthermore, the trading volume of the Shares has been thin, resulting in low trading liquidity of the Shares. The average daily trading volume for the last 12 months up to and including the Pre-Announcement Last Trading Day is approximately 2.6 million Shares, representing approximately 0.11% of the total Shares in issue and approximately 0.28% of the total Scheme Shares.

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Benefits to PCCW and its shareholders

A privatisation of PCPD should have the following benefits:

First, once privatised, PCPD will be able to concentrate on property projects that create value over a longer term and will not be distracted and pressurised to deliver short term performance for the benefit of its public shareholders due to the requirement of regular reporting and disclosure of its financial results. This pressure will always be present as long as the price of the Shares continues to trade at such substantial discount to PCPD's NAV.

Second, PCPD's management will be able to focus on running its property business without the distraction of maintaining regular shareholder reports and other ongoing obligations as required by a listed issuer on the Stock Exchange. The board of directors of PCCW considers that the Offer Price is reasonable and in light of the benefits stated above, it makes economic sense and is in the interest of the shareholders of PCCW as a whole for PCCW to privatise PCPD.

Benefits to Scheme Shareholders

The Directors (other than the members of the Independent Board Committee whose views are set out in their letter to the Independent Shareholders set out on pages 18 to 19 of this document) agree with PCCW's view as set out in the section headed "Reasons for the Proposal" above and in the Letter from the Board. In the circumstances, the Directors (other than the members of the Independent Board Committee) have decided to put forward the Proposal to the Scheme Shareholders for their consideration.

Given the scarcity of land supply in Hong Kong, PCPD has faced and will continue to face difficulties in securing large-scale sites with suitable development potential which meet the investment and development criteria of PCPD. Furthermore, having considered the costs and potential obstacles to the redevelopment of telephone exchanges in Hong Kong, including, amongst others, uncertainties associated with the long lead-time for obtaining approval from the relevant government authorities, the management of PCPD expects that the potential profit realisation from these redevelopment opportunities in the near term is uncertain and limited. Although the PCPD Group will continue to explore potential opportunities in property development, it remains a challenge for the PCPD Group to replicate its historical financial performance in the near term.

In view of the unsatisfactory share price performance and trading liquidity, PCPD has not raised any funds from the equity capital markets in the last three years and PCPD has no intention to raise any funds from the equity capital markets in the foreseeable future.

Having also considered the other principal factors as discussed above, the management of PCPD (other than the members of the Independent Board Committee) is of the view that the costs associated with the maintenance of the listing of the Shares on the Stock Exchange and PCPD's publicly listed status are no longer warranted.

Since PCCW already indirectly owned approximately 61.53% of PCPD as at the Latest Practicable Date, the Directors (other than the members of the Independent Board Committee) believe

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that it is unlikely that the Scheme Shareholders will receive any other offer to acquire the Shares from a third party without the approval of PCCW. In addition, Scheme Shareholders should note that no discussions have taken place (or are taking place) between PCCW and any third party regarding the disposal of any of the Shares held by PCCW through Asian Motion and PCCW has no intention of discontinuing the business of PCPD.

Having considered all the above factors, the Directors (other than the members of the Independent Board Committee) believe that the Proposal represents an attractive opportunity for the Scheme Shareholders to realise their entire investment at a premium to current market value under the current highly volatile stock market environment.

INTERESTS OF DIRECTORS OF PCPD, PCCW AND THE OFFEROR IN THE SCHEME AND EFFECTS THEREON

As at the Latest Practicable Date, Options relating to 5,000,000 Shares were outstanding and exercisable under the Share Option Schemes, with an exercise price of HK\$2.375 per Share. The Options relating to 5,000,000 Shares are held by Mr. Chung Cho Yee, Mico, a director of PCCW and of a subsidiary of PCPD and a person acting in concert with the Offeror under the Takeovers Code. Mr. Chung has undertaken not to exercise any of the Options prior to the Proposal either becoming effective or lapsing and, accordingly, will not be eligible to vote on the Proposal as an Independent Shareholder at the Court Meeting. Conditional upon the Proposal becoming effective and the Optionholder accepting the offer for the cancellation of the Options, the Options held by Mr. Chung will be cancelled. The amount of the offer to cancel an Option will be calculated by deducting the exercise price per Share payable on exercise of an Option from the Offer Price per Share payable under the Scheme. A letter from the Offeror to Mr. Chung setting out the terms of the proposal will be despatched to him on the date of this document.

As at the Latest Practicable Date, PCPD had not been notified of any interests or short positions in the Shares or underlying Shares of PCPD held by the Directors or their associates.

As at the Latest Practicable Date, PCPD had not been notified of any interests or short positions in the Shares or underlying Shares of PCPD held by the directors of PCCW or the Offeror, other than (i) the Options held by Mr. Chung Cho Yee, Mico referred to above and (ii) the indirect interests of such directors in the Shares held by Asian Motion (by virtue of such directors being parties acting in concert with Asian Motion under the Takeovers Code).

Accordingly, no director of PCPD, PCCW or the Offeror will vote on the Proposal at the Court Meeting.

SHARE CERTIFICATES, DEALINGS AND LISTING

Upon the Scheme becoming effective, all Scheme Shares will be cancelled. Share certificates for the Shares held by the Scheme Shareholders will thereafter cease to have effect as documents of, or evidence of, title. PCPD will apply to the Stock Exchange for the withdrawal of the listing of the

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Shares on the Stock Exchange. The Scheme Shareholders will be notified by way of an announcement of the exact date on which the Scheme and the withdrawal of the listing of the Shares on the Stock Exchange will become effective. The Scheme will lapse if it does not become effective on or before 31 August, 2008 (or such later date as the Offeror and PCPD may agree and the Court may allow).

The listing of the Shares on the Stock Exchange will not be withdrawn if the Proposal is not approved or lapses.

REGISTRATION AND PAYMENT

Upon the Scheme becoming effective, payment for the consideration of the Scheme Shares will be made to the Scheme Shareholders whose names appear on the Register on the Record Date. On the basis that the Scheme becomes effective on or about 9 May, 2008, cheques for payment of the consideration payable under the Scheme are expected to be despatched on or about 19 May, 2008. In the absence of any specific instructions to the contrary received in writing by Computershare Hong Kong Investor Services Limited, the branch share registrar of PCPD, at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, cheques will be sent to the persons entitled thereto at their respective registered addresses or, in the case of joint holders, to the registered address of that joint holder whose name stands first in the Register in respect of the joint holding. All such cheques will be sent at the risk of the person(s) entitled thereto and PCPD, PCCW, the Offeror and Citigroup or any of them will not be responsible for any loss or delay in despatch.

On or after the day being six calendar months after the posting of such cheques, the Offeror shall have the right to cancel or countermand payment of any such cheque which has not been cashed or has been returned uncashed, and shall place all monies represented thereby in a deposit account in PCPD's name with a licensed bank in Hong Kong selected by PCPD.

PCPD shall hold such monies until the expiry of six years from the Effective Date and shall, prior to such date, make payments thereof of the sums, together with interest thereon, to persons who satisfy PCPD that they are respectively entitled thereto and that the cheques of which they are payees have not been cashed. On the expiry of six years from the Effective Date, the Offeror shall be released from any further obligation to make any payments under the Scheme and PCPD shall thereafter transfer to the Offeror the balance (if any) of the sums then standing to the credit of the deposit account in its name, including accrued interest subject, if applicable, to the deduction of any interest or withholding or other tax or any other deduction required by law and subject to the deduction of any expenses.

The latest time for lodging transfer of Shares to qualify for entitlements under the Scheme is 4:30 p.m. on 6 May, 2008. The Scheme Shareholders should ensure that their Shares are registered or lodged for registration in their names or in the name(s) of their nominees at or with Computershare Hong Kong Investor Services Limited, the branch share registrar of PCPD, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

Assuming that the Scheme becomes effective, all existing certificates representing the Scheme Shares will cease to have effect as documents or evidence of title as from the Effective Date.

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Settlement of the cash entitlements to which any Scheme Shareholder is entitled under the Scheme will be implemented in full in accordance with the terms of the Scheme without regard to any lien, right of set-off, counterclaim or other analogous right to which PCPD may otherwise be, or claim to be, entitled against such Scheme Shareholder.

OVERSEAS SHAREHOLDERS OF PCPD

The making of the Proposal to and acceptance of the Scheme by Scheme Shareholders not resident in Hong Kong may be subject to the laws of the relevant jurisdictions. Such Scheme Shareholders should inform themselves about and observe any applicable legal and regulatory requirements. It is the responsibility of any overseas Scheme Shareholders of PCPD wishing to accept the Proposal to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, and the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction.

TAXATION

As the Scheme does not involve the sale and purchase of Hong Kong stock, no stamp duty will be payable pursuant to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) on the cancellation of the Scheme Shares upon the Scheme becoming effective.

The Scheme Shareholders, whether in Hong Kong or in other jurisdictions, are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of the Scheme and in particular, whether the receipt of the Offer Price would make such Scheme Shareholder liable to taxation in Hong Kong or in other jurisdictions.

COURT MEETING AND SGM

In accordance with the direction of the Court, the Court Meeting will be convened for the purpose of considering and, if thought fit, passing an appropriate resolution to approve the Scheme (with or without modifications). Insofar as the sanction of the Scheme by the Court is concerned, such a resolution will be passed if a majority in number representing three-fourths in value of the Shares held by the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting vote in favour of the Scheme. However, the Scheme will only be considered to have been approved under the Takeovers Code if (i) the Scheme is approved by at least 75% of the votes attaching to the Shares of the Independent Shareholders that are cast either in person or by proxy at the Court Meeting; and (ii) the number of votes cast against the resolution at the Court Meeting is not more than 10% of all the Shares held by all of the Independent Shareholders. Based on 926,126,540 Shares held by the Independent Shareholders as at the Latest Practicable Date, 10% of such Shares amounts to 92,612,654 Shares.

In addition to the resolution required to sanction the Scheme at the Court Meeting, the Scheme also involves a reduction of issued share capital as one of its terms. Under the Companies Act and the bye-laws of PCPD, the reduction of issued share capital is required to be approved by a special resolution of Shareholders. Such special resolution will be proposed at the SGM, which will be

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convened to be held immediately following the Court Meeting for the purpose of considering and, if thought fit, passing the special resolution to approve the reduction of issued share capital and the cancellation of the Scheme Shares and to approve and give effect to the Scheme. The special resolution will be passed provided that it is approved by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting, in person or by proxy, at the SGM. All Shareholders will be entitled to attend and vote at the SGM.

As at the Latest Practicable Date, Asian Motion was interested in 1,481,333,333 Shares, representing approximately 61.53% of the issued share capital of PCPD. Asian Motion is, in common with the Offeror, a wholly-owned subsidiary of PCCW. Accordingly, the Shares in which Asian Motion is interested will not form part of the Scheme Shares and Asian Motion will not have the right to vote at the Court Meeting. In view of the interests of Asian Motion in the Proposal, any holders of Scheme Shares who are acting in concert with Asian Motion, PCCW and the Offeror are not entitled to and will not vote at the Court Meeting.

Asian Motion has indicated that if the Scheme is approved at the Court Meeting, it will vote in favour of the special resolution to be proposed at the SGM to approve and give effect to the Scheme. Each of the Offeror and Asian Motion and their respective concert parties will undertake to appear by counsel at the hearing of the petition to sanction the Scheme and to undertake to the Court to be bound thereby and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed and done by the Offeror and Asian Motion, respectively, for the purposes of giving effect to the Scheme.

Shareholders are urged to have their names entered in the Register as soon as possible for, inter alia, the following reasons:

- (a) to enable Shareholders (being Scheme Shareholders) to attend the meeting as required under Section 99 of the Companies Act in the capacity as members of PCPD or to be represented by proxies to be appointed by them;
- (b) to enable PCPD to properly classify members of PCPD for the purposes of Section 99 of the Companies Act; and
- (c) to enable PCPD and the Offeror to make arrangements to effect payments by way of the delivery of cheques to the most appropriate person when the Scheme becomes effective. All deliveries of cheques required for making payment in respect of the Share or Shares as aforesaid shall be effected by duly posting the same in pre-paid envelopes addressed to the persons respectively entitled thereto at their respective addresses as appearing in the Register at the close of business on the Record Date.

No person shall be recognised by PCPD as holding any Shares upon any trust. Any beneficial owner of Shares (“**Beneficial Owner**”) whose Shares are registered in the name of a nominee, trustee, depository or any other authorised custodian or third party (the “**Registered Owner**”) should contact such Registered Owner to give instructions to and/or to make arrangements with such Registered Owner as to the manner in which the Shares beneficially owned by the Beneficial Owner should be voted at the Court Meeting and/or the SGM. A Beneficial Owner who wishes to attend the Court

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Meeting and/or the SGM personally should contact the Registered Owner directly to make the appropriate arrangements with the Registered Owner to enable the Beneficial Owner to attend and vote at the Court Meeting and/or the SGM and for such purpose the Registered Owner may appoint the Beneficial Owner as its proxy. The appointment of a proxy by the Registered Owner at the relevant Court Meeting and/or the SGM shall be in accordance with all relevant provisions in the bye-laws of PCPD. In the case of the appointment of a proxy by the Registered Owner, the relevant forms of proxy shall be completed and signed by the Registered Owner and shall be lodged in the manner and before the latest time for lodging the relevant forms of proxy as more particularly set out in this document.

Any Beneficial Owner whose Shares are deposited in Central Clearing and Settlement System (“CCASS”) and registered under the name of HKSCC Nominees Limited must, unless such Beneficial Owner is a person admitted to participate in CCASS as an investor participant (the “**Investor Participant**”), contact their broker, custodian, nominee or other relevant person who is, or has in turn deposited such Shares with, a CCASS participant (“**Other CCASS Participant**”) regarding voting instructions to be given to such persons if they wish to vote in respect of the Scheme. The procedure for voting in respect of the Scheme by the Investor Participants and the Other CCASS Participants with respect to Shares registered under the name of HKSCC Nominees Limited shall be in accordance with the “**General Rules of CCASS**” and the “**CCASS Operational Procedures**”.

Notice of the Court Meeting is set out on pages 173 to 174 of this document. The Court Meeting will be held on 17 April, 2008 at the time specified in the notice of the Court Meeting in the Conference Room, 14th Floor PCCW Tower, TaiKoo Place, 979 King’s Road, Quarry Bay, Hong Kong.

Notice of the SGM is set out on pages 175 to 176 of this document. The SGM will be held on 17 April, 2008 in Conference Room, 14th Floor, PCCW Tower, TaiKoo Place, 979 King’s Road, Quarry Bay, Hong Kong at 10:30 a.m. or immediately after the conclusion or adjournment of the Court Meeting, whichever is the later.

DEMAND FOR POLL AT THE SGM

Pursuant to bye-law 66 of the bye-laws of PCPD, 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

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- (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; or
- (e) any Director or Directors who, individually or collectively, hold(s) proxies in respect of Shares representing 5% or more of the total voting rights at such meeting.

ACTION TO BE TAKEN

Shareholders

A pink form of proxy for use at the Court Meeting and a white form of proxy for use at the SGM are enclosed with this document.

Whether or not you are able to attend the Court Meeting and/or the SGM, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting, and the enclosed white form of proxy in respect of the SGM, in accordance with the instructions printed thereon, and to lodge them with Computershare Hong Kong Investor Services Limited, the branch share registrar of PCPD, at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. In order to be valid, the pink form of proxy for use at the Court Meeting should be lodged not later than 10:00 a.m. on 15 April, 2008 and the white form of proxy for use at the SGM should be lodged not later than 10:30 a.m. on 15 April, 2008 for the purpose of the SGM to be convened on 17 April, 2008. In the case of the pink form of proxy in respect of the Court Meeting, it may be returned by facsimile at number (852) 2989 6268 (marked for the attention of "the Company Secretary") or it may be handed to the chairman of the Court Meeting at the Court Meeting if it is not so lodged. The completion and return of a form of proxy for the Court Meeting or the SGM will not preclude you from attending and voting in person at the relevant meeting. In such event, the returned form of proxy will be deemed to have been revoked.

An announcement will be made by PCPD in relation to the results of the Court Meeting and the SGM. In addition, an announcement will be made on the results of the hearing of the petition to sanction the Scheme by the Court and, if the Scheme is sanctioned, the last date of dealings in the Shares on the Stock Exchange, the Record Date, the Effective Date and the date of the withdrawal of the listing of the Shares on the Stock Exchange.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting, you will still be bound by the outcome of such Court Meeting. You are therefore strongly urged to attend and vote at the Court Meeting in person or by proxy.

For the purpose of determining the entitlements of Shareholders to attend and vote at the Court Meeting and the SGM, the Register will be closed from 15 April, 2008 to 17 April, 2008 (both days inclusive) and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the SGM, all transfers accompanied by the relevant share certificates must be lodged with Computershare Hong Kong Investor Services Limited, the branch share registrar of PCPD, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 14 April, 2008.

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COSTS OF THE SCHEME

In the event that the Scheme becomes effective, the costs of the Scheme will be borne by PCPD. The costs of the Scheme and of its implementation are expected to amount to approximately HK\$13 million. These primarily consist of fees for financial advisers, legal advisers, accounting, printing and other related charges.

In the event that the Scheme (i) is either not recommended by the Independent Board Committee or is not recommended as fair and reasonable by the independent financial adviser to the Independent Board Committee and is not approved at the relevant Shareholders' meeting(s) or (ii) does not become unconditional, all the expenses incurred by PCPD in connection with the Scheme shall be borne by the Offeror.

RECOMMENDATION

Your attention is drawn to the following:

- (i) the paragraph headed "Recommendation" in the "Letter from the Board" set out on page 17 of this document;
- (ii) the letter from the Independent Board Committee set out on pages 18 to 19 of this document; and
- (iii) the letter from Rothschild set out on pages 20 to 45 of this document.

FURTHER INFORMATION

Further information is set out in the Appendices to, and elsewhere in, this document, all of which form part of this Explanatory Statement.

1. THREE-YEAR FINANCIAL INFORMATION

Set out below is the consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of Pacific Century Premium Developments Limited (the “Company”) and its subsidiaries (the “Group”) for each of the three years ended 31 December, 2005, 31 December, 2006 and 31 December, 2007, and the consolidated balance sheets as at 31 December, 2005, 31 December, 2006 and 31 December, 2007, which are reproduced from the published audited financial statements of the Group for the three years then ended. From 1 January, 2005, all Hong Kong Statements of Standard Accounting Practice and interpretations have been withdrawn and replaced by a number of new or revised Hong Kong Accounting Standards. The auditor’s reports in respect of the Group’s financial statements for each of the three years ended 31 December, 2005, 31 December, 2006 and 31 December, 2007 did not contain any qualifications. Certain disclosure notes which were not available in the 2005 audited financial statements of the Group due to the adoption of new accounting standards effective from the accounting years of 2007 and onwards, have been reproduced in the three-year financial information. The consolidated income statements, consolidated statements of changes in equity, consolidated cash flow statements and consolidated balance sheets are prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.

The consolidated income statements of the Group set out in the financial information on the PCPD Group in Appendix I to this document does not contain extraordinary items, exceptional items or minority interests.

APPENDIX I**FINANCIAL INFORMATION ON THE PCPD GROUP****CONSOLIDATED INCOME STATEMENT***For the year ended 31 December, 2007*

	<i>Note(s)</i>	2007 <i>HK\$ million</i>	2006 <i>HK\$ million</i>	2005 <i>HK\$ million</i>
Turnover	4, 5	3,134	7,263	5,127
Cost of sales		<u>(2,031)</u>	<u>(6,075)</u>	<u>(4,201)</u>
Gross profit		1,103	1,188	926
General and administrative expenses		(356)	(308)	(260)
Other income		21	57	—
Other losses, net	6	(54)	(25)	(67)
Interest income		275	376	222
Surplus on revaluation of investment properties		14	2	16
Finance costs	7	<u>(133)</u>	<u>(130)</u>	<u>(127)</u>
Profit before taxation	8	870	1,160	710
Income tax	11	<u>(86)</u>	<u>(195)</u>	<u>(113)</u>
Profit attributable to equity holders of the Company		<u>784</u>	<u>965</u>	<u>597</u>
Dividends				
Interim dividend	12	36	36	36
Final dividend proposed after the balance sheet date	12	<u>—</u>	<u>132</u>	<u>132</u>
Earnings per share (<i>expressed in Hong Kong cents per share</i>)				
Basic	13	32.59 cents	40.16 cents	25.77 cents
Diluted	13	<u>29.78 cents</u>	<u>35.47 cents</u>	<u>23.51 cents</u>
Dividends per share (<i>expressed in Hong Kong cents per share</i>)	12	<u>1.50 cents</u>	<u>7.00 cents</u>	<u>7.00 cents</u>

APPENDIX I**FINANCIAL INFORMATION ON THE PCPD GROUP****CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***For the year ended 31 December, 2007*

	<i>Note</i>	2007 <i>HK\$ million</i>	2006 <i>HK\$ million</i>	2005 <i>HK\$ million</i>
Balance at 1 January,		<u>6,683</u>	<u>5,757</u>	<u>4,471</u>
Exchange differences	28	<u>313</u>	<u>127</u>	<u>72</u>
Net income recognised directly in equity		313	127	72
Profit for the year	28	<u>784</u>	<u>965</u>	<u>597</u>
Total recognised income for the year		<u>1,097</u>	<u>1,092</u>	<u>669</u>
Issue of new shares for exercise of share options (<i>note 25(e)</i>)	28	12	—	—
Issue of ordinary shares upon Conversion of convertible notes (<i>note 25(c)</i>)	28	—	—	816
Value of employee services under employee share option scheme	28	—	2	5
2006 final dividend paid	28	(132)	—	—
2007 interim dividend paid	28	(36)	—	—
2005 final dividend paid	28	—	(132)	—
2006 interim dividend paid	28	—	(36)	—
2004 final dividend paid	28	—	—	(168)
2005 interim dividend paid	28	<u>—</u>	<u>—</u>	<u>(36)</u>
Balance at 31 December,		<u><u>7,624</u></u>	<u><u>6,683</u></u>	<u><u>5,757</u></u>

APPENDIX I**FINANCIAL INFORMATION ON THE PCPD GROUP****CONSOLIDATED BALANCE SHEET***As at 31 December, 2007*

	<i>Note(s)</i>	2007 <i>HK\$ million</i>	2006 <i>HK\$ million</i>	2005 <i>HK\$ million</i>
ASSETS AND LIABILITIES				
Non-current assets				
Investment properties	14	4,153	3,861	3,607
Property, plant and equipment	15	60	43	37
Properties under development	16(a)	795	1,979	1,875
Properties held for development	16(b)	816	—	—
Interest in leasehold land	17	—	502	—
Goodwill	18	93	81	81
Other receivables		26	15	8
Deferred income tax assets	30(b)	10	1	2
		<u>5,953</u>	<u>6,482</u>	<u>5,610</u>
Current assets				
Properties under development/ held for sale	16(a)	9,133	1,521	5,669
Sales proceeds held in stakeholders' accounts	22(a)	2,425	3,472	4,293
Restricted cash	22(b), 31(b)	575	826	1,332
Investment in unconsolidated subsidiaries held for sale	21	—	—	45
Trade receivables, net	22(c)	332	438	239
Prepayments, deposits and other current assets		63	55	90
Amounts due from fellow subsidiaries	36(c)	10	5	10
Amounts due from related companies	36(c)	3	5	2
Short-term deposits	31(b)	106	173	655
Cash and cash equivalents	31(b)	1,759	2,445	2,699
		<u>14,406</u>	<u>8,940</u>	<u>15,034</u>

APPENDIX I**FINANCIAL INFORMATION ON THE PCPD GROUP**

	<i>Note(s)</i>	2007 <i>HK\$ million</i>	2006 <i>HK\$ million</i>	2005 <i>HK\$ million</i>
Current liabilities				
Current portion of long-term borrowings	23	24	24	24
Trade payables	22(d)	114	93	186
Accruals, other payables and deferred income	22(e)	1,272	1,451	1,603
Derivative financial instrument		7	—	—
Deposits received on sales of properties		1,944	98	822
Gross amounts due to customers for contract works	22(f)	7	7	11
Amounts due to fellow subsidiaries	36(c)	15	17	24
Amount due to ultimate holding company	36(d)	—	1,195	3,180
Amount payable to the Government of the HKSAR under the Cyberport Project Agreement	24	5,178	1,914	5,299
Current income tax liabilities		<u>31</u>	<u>79</u>	<u>171</u>
		<u>8,592</u>	<u>4,878</u>	<u>11,320</u>
Net current assets		<u>5,814</u>	<u>4,062</u>	<u>3,714</u>
Total assets less current liabilities		<u>11,767</u>	<u>10,544</u>	<u>9,324</u>
Non-current liabilities				
Long-term borrowings	23	1,989	1,880	1,779
Amount payable to the Government of the HKSAR under the Cyberport Project Agreement	24	1,741	1,591	1,435
Deferred income tax liabilities	30(a)	326	375	319
Other long-term liabilities		<u>87</u>	<u>15</u>	<u>34</u>
		<u>4,143</u>	<u>3,861</u>	<u>3,567</u>
Net assets		<u><u>7,624</u></u>	<u><u>6,683</u></u>	<u><u>5,757</u></u>
REPRESENTING:				
Issued equity	25	4,321	4,309	4,631
Reserves		<u>3,303</u>	<u>2,374</u>	<u>1,126</u>
		<u><u>7,624</u></u>	<u><u>6,683</u></u>	<u><u>5,757</u></u>

APPENDIX I**FINANCIAL INFORMATION ON THE PCPD GROUP****COMPANY BALANCE SHEET***As at 31 December, 2007*

	<i>Note</i>	2007 <i>HK\$ million</i>	2006 <i>HK\$ million</i>	2005 <i>HK\$ million</i>
ASSETS AND LIABILITIES				
Non-current assets				
Investment in subsidiaries	19	<u>2,870</u>	<u>2,870</u>	<u>2,870</u>
Current assets				
Amounts due from subsidiaries	19	<u>2,913</u>	<u>2,423</u>	<u>4,039</u>
Current liabilities				
Current portion of long-term borrowings	23	—	—	24
Accruals and other payables		2	1	1
Amounts due to unconsolidated subsidiaries held for sale		—	—	8
Amount due to a fellow subsidiary		<u>—</u>	<u>—</u>	<u>12</u>
		<u>2</u>	<u>1</u>	<u>45</u>
Net current assets		<u>2,911</u>	<u>2,422</u>	<u>3,994</u>
Total assets less current liabilities		<u>5,781</u>	<u>5,292</u>	<u>6,864</u>
Non-current liabilities				
Long-term borrowings	23	<u>—</u>	<u>—</u>	<u>1,779</u>
Net assets		<u><u>5,781</u></u>	<u><u>5,292</u></u>	<u><u>5,085</u></u>
REPRESENTING:				
Share capital	25(b)	241	240	240
Reserves	28	<u>5,540</u>	<u>5,052</u>	<u>4,845</u>
		<u><u>5,781</u></u>	<u><u>5,292</u></u>	<u><u>5,085</u></u>

APPENDIX I**FINANCIAL INFORMATION ON THE PCPD GROUP****CONSOLIDATED CASH FLOW STATEMENT***For the year ended 31 December, 2007*

	<i>Note</i>	2007 <i>HK\$ million</i>	2006 <i>HK\$ million</i>	2005 <i>HK\$ million</i>
NET CASH (USED IN)/ GENERATED FROM OPERATING ACTIVITIES	31(a)	(572)	(435)	40
INVESTING ACTIVITIES				
Proceeds from disposal of investment property, net of expenses		—	—	2,497
Acquisition of ski operation of a subsidiary, net of cash acquired	35	(23)	—	—
Payment for investment properties	14	(4)	(127)	—
Purchase of property, plant and equipment		(18)	(20)	(13)
Decrease/(Increase) in bank deposits with maturity more than three months		67	482	(655)
Collection of other receivables in acquisition of subsidiaries		—	—	13
Instalments received from the disposal of unconsolidated subsidiaries		<u>10</u>	<u>10</u>	<u>—</u>
NET CASH GENERATED FROM INVESTING ACTIVITIES		<u>32</u>	<u>345</u>	<u>1,842</u>
FINANCING ACTIVITIES				
Proceeds from shares issued under share option scheme		12	—	—
Dividends paid		<u>(168)</u>	<u>(168)</u>	<u>(204)</u>
NET CASH USED IN FINANCING ACTIVITIES		<u>(156)</u>	<u>(168)</u>	<u>(204)</u>
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS				
		(696)	(258)	1,678
Exchange difference		10	4	3
CASH AND CASH EQUIVALENTS				
Balance at 1 January,		<u>2,445</u>	<u>2,699</u>	<u>1,018</u>
Balance at 31 December,	31(b)	<u><u>1,759</u></u>	<u><u>2,445</u></u>	<u><u>2,699</u></u>

NOTES TO THE FINANCIAL STATEMENTS

Amount expressed in Hong Kong dollars unless otherwise stated

1. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with applicable Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of the Hong Kong Companies Ordinance. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES**a. Basis of preparation of the financial statements**

The consolidated financial statements for the years ended 31 December, 2005, 31 December, 2006 and 31 December, 2007 comprise the Company and its subsidiaries, other than those unconsolidated subsidiaries acquired exclusively with a view for resale.

As stated in note 19 to the 2005 Financial Statements, considering that certain subsidiaries of the Company were acquired and held by the Group exclusively with a view to their subsequent disposal in the near future, the investment in these subsidiaries was accounted for as a disposal group held for sale and stated at the lower of carrying amount and fair value less costs to sell as at 31 December, 2005. The investment in these subsidiaries was recorded as “Investment in unconsolidated subsidiaries held for sale” under current assets in the consolidated balance sheet with a carrying value of approximately HK\$45 million as at 31 December, 2005. These unconsolidated subsidiaries had been disposed in 2006.

The measurement basis used in the preparation of the financial statements is the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss and investment properties, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

b. Adoption of new accounting standards

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

Standards, amendments and interpretations effective from 1 January, 2007

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

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group’s financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, Financial instruments: Disclosure and presentation. These disclosures are provided throughout these financial statements, in particular in note 37.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in note 38.

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

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

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

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

HK(IFRIC)-Int 11	HKFRS 2 - Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March, 2007)
HK(IFRIC)-Int 12	Service Concession Arrangements (effective for annual periods beginning on or after 1 January, 2008)
HK(IFRIC)-Int 13	Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July, 2008)
HK(IFRIC)-Int 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January, 2008)
HKFRS 8	Operating Segments (effective for annual periods beginning on or after 1 January, 2009)
HKAS 23 (Revised)	Borrowing Costs (effective for annual periods beginning on or after 1 January, 2009)
HKAS 1 (Revised)	Presentation of Financial Statements (effective for annual periods beginning on or after 1 January, 2009)

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

c. Subsidiaries

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

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

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

d. Unconsolidated subsidiaries held for sale

A subsidiary that is acquired and held exclusively with a view to resale is not consolidated and is classified as unconsolidated subsidiary held for sale in the consolidated balance sheet. Unconsolidated subsidiaries held for sale are classified as current assets because their sale is expected to be completed generally within one year or a further period if events or circumstances beyond the Group's control occur but the Group is still undergoing the selling of the unconsolidated subsidiaries. The investment in unconsolidated subsidiaries held for sale is stated at the lower of carrying amount and fair value less costs to sell.

e. Revenue recognition

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

(i) Sales of properties

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

For pre-completion contracts for the sale of development properties for which legally binding unconditional sales contracts were entered into on or after 1 January, 2005, revenue and profits are recognised upon completion of the development and when significant risks and reward of ownership have been transferred. Deposits and instalments received from purchasers prior to this stage are included in current liabilities.

If the pre-completion contracts for the sale of development properties for which legally binding unconditional sales contracts were entered into before 1 January, 2005, as permitted by the transitional provisions of HK-Int 3 "Revenue — Pre-completion Contracts for the Sale of Development Properties", revenue and profits continue to be recognised on the percentage of construction completion basis commencing when these contracts

are signed and exchanged, provided that the construction work has progressed to a stage where the ultimate realisation of profit can be reasonably determined and on the basis that the total estimated profits is apportioned over the entire period of construction to reflect the progress of the development. Deposits and instalments received from purchasers are netted off from properties under development.

(ii) *Rental income from operating leases*

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

(iii) *Contract revenue*

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

(iv) *Service income*

Service income is recognised when services are rendered to customers.

(v) *Interest income*

Interest income from bank deposits is accrued on a time-apportioned basis using the effective interest method by reference to the principal outstanding and the rates applicable.

f. **Operating leases**

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

(i) *Assets held for use in operating leases (as lessor)*

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature as set out in note 2(h). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 2(e)(ii).

(ii) *Operating lease charges*

Leases in which a significant portion of the risks and rewards of ownership retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

Up-front payments made for leasehold land held under operating leases are presented in the balance sheet as prepayments for operating leases and are amortised in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement.

When a definite intention to develop the leasehold land is clear and action initiated, the net book value of leasehold land held under operating lease for sale is reclassified as properties under development.

g. **Freehold land, property, plant and equipment and depreciation**

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

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

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

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

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

h. **Investment properties**

A property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property.

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

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

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

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

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

- interest in leasehold land;
- interest in freehold land;
- property, plant and equipment;
- properties held for/under development;
- investment in subsidiaries; and
- goodwill.

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

(i) Calculation of recoverable amount

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

(ii) Reversals of impairment losses

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

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

j. Properties held for and under development for sale

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

Properties under development represent interests in land and buildings under construction. Properties under development for long-term retention purposes are stated at cost less any provision for impairment in value.

Properties under development for sale, for which pre-sales have commenced and pre-sale contracts were entered before 1 January, 2005 are stated at cost plus attributable profits less any foreseeable losses, sale deposits received and instalments received and receivables (note 2(e)(i)).

Properties under development for sale where the pre-sales have not yet commenced or pre-sale contracts were entered on or after 1 January, 2005 are carried at the lower of cost and the estimated net realisable value. Cost includes original land acquisition costs, costs of land use rights, construction expenditures incurred and other direct development costs attributable to such properties, including amortisation of leasehold land and interest incurred on loans directly attributable to the development prior to the completion of construction. The net realisable value is determined by reference to estimated sale proceeds of properties sold in the ordinary course of business less all estimated selling expenses.

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

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

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

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

k. Goodwill

Goodwill represents the excess of the cost of an acquisition over the Group's share of the fair value of the acquiree's net identifiable assets and liabilities at the date of acquisition.

Goodwill is stated at cost less accumulated impairment losses (note 2(i)). Goodwill is allocated to cash-generating units for the purpose of impairment testing and is tested annually for impairment. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity or business unit include the carrying amount of goodwill relating to the entity or business unit sold.

l. Construction contracts

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

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

m. Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. Trade and other receivables are included in trade receivables and prepayments, deposits and other current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of loans and receivables is established when there is objective evidence that the Group will not be able to collect amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probably that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivables is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the income statement. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement.

n. **Cash and cash equivalents**

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

o. **Derivative financial instruments**

The fair value of the liability portion of convertible notes is determined using a market interest rate for an equivalent non-convertible debt. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the debt. The remainder of the proceeds is allocated to the conversion option, which is recognised and included in shareholders' equity, net of income tax effects. The carrying amount of the financial liability is measured on the amortised cost basis using effective interest method minus principal repayments. The conversion option is an equity instrument that is recognised in the convertible notes reserve in equity until either the note is converted or redeemed. If the note is converted, the convertible notes reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the convertible notes reserve is transferred directly to retained earnings.

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

Rental guarantee contract of the Group is categorised as a financial liability at fair value through profit or loss at inception and is initially recognised at fair value on the date on which a contract is entered into and subsequently re-measured at its fair value at each balance sheet date. Changes in fair value of the rental guarantee contract are recognised in the income statement.

p. **Financial guarantees issued**

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

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

q. **Trade and other payables**

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

r. **Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Company or the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate of the amount required to settle the obligation. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of resources will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

s. **Borrowing costs**

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

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

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

t. **Income tax**

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

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

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

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

u. **Employee benefits**

- (i) Salaries, annual bonuses, annual leave entitlements, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, provisions are made for the estimated liability as a result of services rendered by employees up to the balance sheet date.
- (ii) Defined benefit and defined contribution retirement schemes (including the Mandatory Provident Fund) are offered to employees of the Group. The schemes are operated by PCCW and the assets of such schemes are generally held in separate trustee-administered funds. The schemes are generally funded by payments from the relevant companies of the PCCW Group including the Group and, in some cases, employees themselves, taking into account of the recommendations of independent qualified actuaries.

The Group's contributions to the defined contribution retirement schemes are recognised as expenses in the income statement in the period to which the contributions relate. Under the defined contribution retirement schemes, the employer is required to make contributions to the scheme at rates specified under the rules of the scheme. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

The Group bears its attributable share of retirement cost of the defined benefit retirement schemes operated by PCCW. Retirement costs under defined benefit retirement schemes are assessed using the projected unit credit method. Under this method, the cost of providing defined benefits is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the schemes on an annual basis. The defined benefit obligation is measured as the present value of the estimated future cash outflows using interest rates determined by reference to market yields at the balance sheet date based on Exchange Fund Notes, which have terms to maturity approximating the terms of the related liability. Scheme assets are measured at fair value. Actuarial gains and losses, to the extent that the amount is in excess of 10 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) The Group and PCCW operate share option schemes where employees (including directors) are granted options to acquire shares of the Company or PCCW at specified exercise prices. The fair value of the employee services received in exchange for the grant of the options is recognised as staff costs in the income statement with a corresponding increase in an employee share-based compensation reserve under equity. The fair value of the options granted is measured at grant date using the trinomial option pricing model, taking into account the terms and conditions upon which the options were granted, and spread over the respective vesting period during which the employees become unconditionally entitled to the options. At each balance sheet date, the Group revises its estimates of the number of share options that is expected to become vested. The impact of the revision of original estimates, if any, is recognised in the income statement with a corresponding adjustment to the employee share-based compensation reserve over the remaining vesting period. On vesting date, the amount recognised as staff costs is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the employee share-based compensation reserve). The equity amount is recognised in the employee share-based compensation reserve

until either the share options are exercised (when it is transferred to the share premium account) or the share options expires (when it is released directly to retained earnings). When the share options are exercised, the proceeds received, net of any directly attributable transaction cost, are credited to share capital (nominal value) and share premium.

v. **Foreign currency translation**

Companies comprising the Group maintain their books and records in the primary currencies of their operations (the “functional currencies”). The consolidated financial statements are presented in Hong Kong dollar, which is the Company’s functional and presentation currency.

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

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

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

w. **Segment reporting**

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

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

x. **Dividend distribution**

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

- a. The management have made judgements in applying the Group's accounting policies. The judgements that have the most significant effect on the amounts recognised in the financial statements are discussed below:

(i) *Sales recognition on properties sold*

The Group has made judgement on when significant risks and reward of ownership of properties are transferred to purchasers. When significant risks and reward of ownership of properties are transferred to purchasers, the Group recognised revenue in respect of the properties sold. The judgement on the date of transfer of risks and reward of ownership of properties would affect the Group's profits for the year and the carrying value of properties under developments.

(ii) *Purchase price allocation*

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

(iii) *Unconsolidated subsidiaries held for sale*

The Group has made the judgement that it is appropriate not to consolidate those subsidiaries which were acquired by the Group and held exclusively with a view for resale. Management had the intention, at the time of acquisition, to dispose those subsidiaries within one year of their acquisition or to undergo the sale of those subsidiaries if the purchaser fails to perform according to the sales and purchase agreement. Such subsidiaries have been excluded from the Group's consolidation for both 2005 and 2006. An agreement was entered in 2006 and the unconsolidated subsidiaries were disposed as at 31 December, 2006 (see note 21 for further details).

(iv) *Disposal of PCCW Tower*

Under the formal property sales and purchase agreement (the "Property Sales and Purchase Agreement") dated 21 December, 2004 for the disposal of the property known as PCCW Tower, on completion of the disposal, the Group has guaranteed to the purchaser a net monthly rental of approximately HK\$13.3 million for a period of five years up to 7 February, 2010. The Group derecognised the property as at 7 February, 2005 on the basis that the Group considered that the significant risks and rewards associated with the ownership of PCCW Tower were transferred to the purchaser as of that date as the potential shortfall in covering the guaranteed net monthly rental, if any, was expected to be insignificant as compared to the total sales proceeds of HK\$2,808 million. The Property Sales and Purchase Agreement was completed on 7 February, 2005 (see note 14 for further details).

- b. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) *Cost of sales and amount payable to the Government of the HKSAR under the Cyberport Project Agreement*

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

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

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

(ii) *Estimated valuation of investment properties*

The best evidence of fair value is current prices in an active market for similar leases and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair values estimates. In making its estimates, the Group considers both (i) information from the valuations of investment properties performed by external professional valuers by using the open market value approach and (ii) other principal assumptions including the receipt of contractual rentals, expected future market rentals and discount rates to determine the fair value of the investment properties. Had the Group used different future market rentals, discount rates and other assumptions, the fair value of the investment properties would be different and thus caused impact to the consolidated income statement. As at 31 December, 2007, the fair value of the investment properties was HK\$4,153 million.

(iii) *Estimated provision for rental guarantee*

The rental guarantee in relation to PCCW Tower is accounted for as a financial liability at fair value through profit or loss. The best evidence of fair value is current prices in an active market for similar leases and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair values estimates. The Group’s estimate of fair value is based on estimates of receipt of contractual rentals, future market rentals, occupancy rates, maintenance costs and appropriate discount rates. In making its judgement, management determines the fair value of the rental guarantee using discounted cash flow valuation techniques. Had the estimated future market rentals changed or a different discount rate been used, adjustments to the provision for rental guarantee would be made. As at 31 December, 2007, the provision for rental guarantee was HK\$9 million (see note 33(i) for further details).

(iv) *Derivative financial instruments*

The fair value of the liability portion of a convertible debt was determined by using a market interest rate for an equivalent non-convertible debt at the date the convertible notes was issued in May 2004. This amount is

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

(v) *Deferred taxation*

While deferred tax liabilities are provided in full on all taxable temporary differences, deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. In assessing the amount of deferred tax assets that need to be recognised, the Group considers future taxable income and ongoing prudent and feasible tax planning strategies. In the event that the Group's estimates of projected future taxable income and benefits from available tax strategies are changed, or changes in current tax regulations are enacted that would impact the timing or extent of the Group's ability to utilise the tax benefits of net operating loss carried forward in the future, adjustments to the recorded amount of net deferred tax assets and taxation expense would be made. As at 31 December, 2007, the total deferred tax assets recognised was HK\$32 million, with HK\$22 million deferred tax assets netted off against the deferred tax liabilities recognised in the consolidated balance sheet (notes 30(a) and 30(b)).

4. TURNOVER

Turnover comprises revenues recognised in respect of the following businesses:

	2007	The Group	
	<i>HK\$ million</i>	2006	2005
		<i>HK\$ million</i>	<i>HK\$ million</i>
Property development	2,800	6,953	4,821
Property investment	235	228	233
Other businesses	99	82	73
	<u>3,134</u>	<u>7,263</u>	<u>5,127</u>

5. SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more consistent with the Group's internal financial reporting.

a. **Business segments**

The Group comprises the following main business segments:

- Property development includes property development projects in the Asia-Pacific region.
- Property investment is the investment in properties in Hong Kong and Beijing.
- Other businesses include property management division providing services of property management, facilities management, corporate services and asset management, and ski operation.

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	Property development			Property investment			Other businesses			Elimination			Consolidated		
	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
REVENUE															
External revenue	2,800	6,953	4,821	235	228	233	99	82	73	—	—	—	3,134	7,263	5,127
Inter-segment revenue	—	—	—	—	—	—	91	36	37	(91)	(36)	(37)	—	—	—
Total revenue	<u>2,800</u>	<u>6,953</u>	<u>4,821</u>	<u>235</u>	<u>228</u>	<u>233</u>	<u>190</u>	<u>118</u>	<u>110</u>	<u>(91)</u>	<u>(36)</u>	<u>(37)</u>	<u>3,134</u>	<u>7,263</u>	<u>5,127</u>
RESULT															
Segment results	642	822	548	157	143	104	—	2	2	—	—	—	799	967	654
Unallocated corporate expenses													(71)	(53)	(39)
Interest income													275	376	222
Finance costs													(133)	(130)	(127)
Profit before taxation													870	1,160	710
Income tax													(86)	(195)	(113)
Profit attributable to equity holders of the Company													<u>784</u>	<u>965</u>	<u>597</u>
OTHER INFORMATION															
Capital expenditure incurred during the year	—	12	—	16	134	7	6	1	6	—	—	—	22	147	13
Depreciation and amortisation	8	6	—	10	10	8	4	4	3	—	—	—	22	20	11
Surplus on revaluation of investment properties credited to the consolidated income statement	—	—	—	14	2	16	—	—	—	—	—	—	14	2	16
Impairment loss recognised in the consolidated income statement	—	—	—	—	—	—	11	25	6	—	—	—	11	25	6
Provision for doubtful debts	—	—	—	—	—	—	—	—	7	—	—	—	—	—	7
Value of employee services under employee share option scheme	—	—	—	—	—	—	—	2	5	—	—	—	—	2	5
ASSETS															
Segment assets	14,273	8,801	13,417	4,487	4,014	3,804	81	39	72	—	—	—	18,841	12,854	17,293
Investment in unconsolidated subsidiaries held for sale													—	—	45
Unallocated corporate assets													1,518	2,568	3,306
Consolidated total assets													<u>20,359</u>	<u>15,422</u>	<u>20,644</u>
LIABILITIES															
Segment liabilities	10,187	6,286	12,534	384	431	437	56	36	52	—	—	—	10,627	6,753	13,023
Unallocated corporate liabilities													2,108	1,986	1,864
Consolidated total liabilities													<u>12,735</u>	<u>8,739</u>	<u>14,887</u>

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b. Geographical segments

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

	Revenue from external customers			Segment assets			Capital expenditure incurred during the year		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
	million	million	million	million	million	million	million	million	million
Hong Kong	2,894	7,038	4,915	14,311	10,890	16,877	5	13	6
Mainland China	232	225	212	5,085	4,532	3,767	14	134	7
Japan	8	—	—	317	—	—	3	—	—
Thailand	—	—	—	646	—	—	—	—	—
	<u>3,134</u>	<u>7,263</u>	<u>5,127</u>	<u>20,359</u>	<u>15,422</u>	<u>20,644</u>	<u>22</u>	<u>147</u>	<u>13</u>

6. OTHER LOSSES, NET

	The Group		
	2007	2006	2005
	HK\$ million	HK\$ million	HK\$ million
Provision of rental guarantee	36	—	69
Impairment loss	11	25	6
Unrealised loss on derivative financial instrument	7	—	—
Gain on disposal of an investment property	—	—	(8)
	<u>54</u>	<u>25</u>	<u>67</u>

7. FINANCE COSTS

	The Group		
	2007	2006	2005
	HK\$ million	HK\$ million	HK\$ million
Interest expenses:			
Convertible notes wholly repayable after 5 years (<i>note 23</i>)	133	125	127
Other finance costs	—	5	—
	<u>133</u>	<u>130</u>	<u>127</u>

8. PROFIT BEFORE TAXATION

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

	2007	The Group 2006	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Crediting:			
Gross rental income from investment properties	235	228	233
Other rental income	3	3	—
Less: outgoings	(18)	(16)	(21)
Surplus on revaluation of investment properties	14	2	16
Charging:			
Cost of properties sold	1,932	5,987	4,119
Depreciation, included in:			
- cost of sales	—	1	1
- general and administrative expenses	15	14	10
Amortisation of leasehold land	7	5	—
Staff costs, included in:			
- cost of sales	70	68	65
- general and administrative expenses	119	91	86
Contributions to defined contribution retirement scheme, included in:			
- cost of sales	4	4	4
- general and administrative expenses	2	5	3
Contributions to defined benefit retirement scheme, included in cost of sales	—	—	1
Auditors' remuneration	2	2	2
Operating lease rental			
- land and buildings	4	4	3
- equipment	3	3	2
Value of employee services under employee share option scheme	—	2	5
Provision for doubtful debts	—	—	7
Net foreign exchange loss	4	3	—

9. DIRECTORS' EMOLUMENTS

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

	The Group											
	2007				2006				2005			
	Directors' fee	Salaries, allowances, other allowances and benefits in kind	Bonuses	Retirement scheme contributions	Directors' fee	Salaries, allowances, other allowances and benefits in kind	Bonuses	Retirement scheme contributions	Directors' fee	Salaries, allowances, other allowances and benefits in kind	Bonuses	Retirement scheme contributions
HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
Executive Directors												
Li Tzar Kai, Richard (note i)	—	—	—	—	—	—	—	—	—	—	—	—
Lee Chi Hong, Robert	—	11,000	19,850	988	—	11,000	7,270	904	—	11,000	7,904	904
Alexander Anthony Arena (note i)	—	—	—	—	—	—	—	—	—	—	—	—
Yuen Tin Fan, Francis (note i, ii)	—	—	—	—	—	—	—	—	—	—	—	—
Hubert Chak (note i, iii)	—	—	—	—	—	—	—	—	—	—	1,600	—
James Chan (note iv)	—	3,183	1,450	284	—	3,068	1,600	258	—	2,891	2,379	243
Gan Kim See, Wendy (note iv)	—	3,183	5,500	334	—	3,068	2,565	322	—	2,891	4,216	253
Lam Yu Yee (note v)	—	4,386	4,500	576	—	—	—	—	—	—	—	—
Independent Non-executive Directors												
Ronald James Blake, OBE, JP (note vi)	—	—	—	—	42	—	—	—	200	—	—	—
Cheung Kin Piu, Valiant	200	—	—	—	200	—	—	—	200	—	—	—
Tsang Link Carl, Brian	150	—	—	—	150	—	—	—	150	—	—	—
Prof Wong Yue Chim, Richard, SBS, JP	200	—	—	—	200	—	—	—	200	—	—	—
Dr. Allan Zeman, GBS, JP (note vii)	200	—	—	—	175	—	—	—	150	—	—	—
	<u>750</u>	<u>21,752</u>	<u>31,300</u>	<u>2,182</u>	<u>767</u>	<u>17,136</u>	<u>11,435</u>	<u>1,484</u>	<u>900</u>	<u>16,782</u>	<u>16,099</u>	<u>1,400</u>

- i. The remuneration of executive directors employed by PCCW, the ultimate holding company of the Group, is borne by PCCW except a bonus was paid to Hubert Chak by the Company in 2005.
- ii. Resigned as executive director on 5 June, 2006.
- iii. Resigned as executive director on 9 February, 2007.
- iv. Appointed as executive directors on 18 August, 2005. The emoluments showing in this table are for full year figure.
- v. Appointed as executive director on 1 September, 2007. The emoluments showing in this table are for full year figure.

- vi. Resigned as independent non-executive director on 17 March, 2006.
- vii. Re-designated as independent non-executive director effective 18 July, 2006.
- viii. The total directors' emoluments for the year ended 31 December, 2007, including the amortised share-based compensation, were HK\$56 million (2006: HK\$31 million; 2005: HK\$39 million).
- ix. No directors waived the right to receive emoluments during the current and prior years.

b. Share-based compensation

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

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

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The Group 2006								
	Grant date	Exercise price of share options	Number of share options/ shares outstanding at beginning of year	Number of share options exercised/ shares transferred	Number of share options/ shares outstanding at end of year	Number of share options vested	Share-based compensation charged to income statement	Realised benefits
		<i>HK\$</i>					<i>(note ii)</i> <i>HK\$'000</i>	<i>(note i)</i> <i>HK\$'000</i>
Executive Directors								
Lee Chi Hong, Robert	25 July, 2003	4.35	5,000,000	—	5,000,000	5,000,000	841	—
	8 February, 2005	4.475	1,000,000	—	1,000,000	500,000	299	—
James Chan	25 July, 2003	4.35	210,000	—	210,000	210,000	105	—
Gan Kim See, Wendy	25 July, 2003	4.35	240,000	—	240,000	240,000	121	—
							<u>1,366</u>	<u>—</u>

The Group 2005								
	Grant date	Exercise price of share options	Number of share options/ shares outstanding at beginning of year	Number of share options exercised/ shares transferred	Number of share options/ shares outstanding at end of year	Number of share options vested	Share-based compensation charged to income statement	Realised benefits
		<i>HK\$</i>					<i>(note ii)</i> <i>HK\$'000</i>	<i>(note i)</i> <i>HK\$'000</i>
Executive Directors								
Lee Chi Hong, Robert	25 July, 2003	4.35	5,000,000	—	5,000,000	3,333,333	2,745	—
	8 February, 2005	4.475	1,000,000	—	1,000,000	—	660	—
James Chan	25 July, 2003	4.35	210,000	—	210,000	140,000	188	—
Gan Kim See, Wendy	25 July, 2003	4.35	240,000	—	240,000	160,000	215	—
							<u>3,808</u>	<u>—</u>

i. *Realised benefits*

No director exercised share options in 2005, 2006 and 2007. The realised benefits represent the market value of the relevant shares at the date of transfer.

ii. *Share-based compensation charged to income statement*

Share-based compensation is a trinomial option pricing model calculation of the fair value of share options at the date of grant. Share-based compensation is amortised in the income statement over the vesting period of the related share options. These values do not represent realisable gains which are affected by a combination of a number of factors, including, performance of PCCW's share price, vesting period and timing of exercise. The details of these share options are disclosed in note 27.

10. FIVE TOP-PAID EMPLOYEES

- a. Of the five highest paid individuals in the Group, four (2006: three; 2005: three) are directors whose emoluments are set out in note 9. Details of the emoluments of the remaining highest paid individual (2006: two; 2005: two) are as follows:

	2007	The Group 2006	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Salaries and other short-term employee benefits	—	8	7
Bonuses (<i>note i</i>)	13	2	3
Post-employment benefits	—	1	1
	<u>13</u>	<u>11</u>	<u>11</u>

- i. In 2007, a bonus was paid by the Group to a director of a subsidiary whose other emoluments are borne by PCCW, the ultimate holding company of the Group.
- b. The emoluments of the remaining individual (2006: two; 2005: two) are within the emolument ranges as set out below:

	The Group Number of individuals		
	2007	2006	2005
HK\$4,200,001 - HK\$4,300,000	—	1	—
HK\$5,100,001 - HK\$5,200,000	—	—	1
HK\$5,700,001 - HK\$5,800,000	—	—	1
HK\$6,000,001 - HK\$6,100,000	—	1	—
HK\$12,900,001 - HK\$13,000,000	1	—	—
	<u>1</u>	<u>2</u>	<u>2</u>

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

11. INCOME TAX

Hong Kong profits tax has been provided at the rate of 17.5 percent (2006: 17.5 percent; 2005: 17.5 percent) on the estimated assessable profits for the year.

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

	2007	The Group 2006	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Hong Kong profits tax			
- Provision for current year	125	146	95
- Under/(Over) provision in respect of prior years	1	(1)	(1)
Mainland China income tax			
- Provision for current year	39	4	—
- Under provision in respect of prior years	2	1	—
Deferred taxation relating to the origination and reversal of temporary differences (note 30)	<u>(81)</u>	<u>45</u>	<u>19</u>
	<u>86</u>	<u>195</u>	<u>113</u>

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

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

	2007	The Group 2006	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Profit before taxation	<u>870</u>	<u>1,160</u>	<u>710</u>
Notional tax on profit before taxation, calculated at 17.5 percent	152	203	124
Effect of different tax rate of subsidiaries operating in Mainland China	24	23	17
Reversal of deferred taxation due to change of tax rate in Mainland China	(90)	—	—
Income not subject to taxation	(47)	(65)	(40)
Expenses not deductible for taxation purposes	33	32	34
Utilisation of tax losses not previously recognised	—	—	(21)
Tax losses not recognised	11	2	—
Under/(Over) provision in respect of prior years	<u>3</u>	<u>—</u>	<u>(1)</u>
Taxation charge	<u>86</u>	<u>195</u>	<u>113</u>

12. DIVIDENDS

	2007	2006	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Interim dividend of 1.5 Hong Kong cents per ordinary share (2006: 1.5 Hong Kong cents per ordinary share; 2005: 1.5 Hong Kong cents per ordinary share) paid	36	36	36
Final dividend proposed after the balance sheet date (2006: 5.5 Hong Kong cents per ordinary share; 2005: 5.5 Hong Kong cents per ordinary share)	<u>—</u>	<u>132</u>	<u>132</u>
	<u>36</u>	<u>168</u>	<u>168</u>

The final dividends proposed after the balance sheet date for 2005 and 2006 have not been recognised as a liability as at 31 December, 2005 and 31 December, 2006 respectively.

13. EARNINGS PER SHARE

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

	2007	2006	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Earnings			
Earnings for the purpose of calculating the basic earnings per share	784	965	597
Finance costs on convertible notes	<u>133</u>	<u>125</u>	<u>126</u>
Earnings for the purpose of calculating the diluted earnings per share	<u><u>917</u></u>	<u><u>1,090</u></u>	<u><u>723</u></u>
	2007	2006	2005
	<i>Number of shares</i>	<i>Number of shares</i>	<i>Number of shares</i>
Weighted average number of ordinary shares for the purpose of calculating the basic earnings per share	2,405,596,859	2,402,459,873	2,318,405,078
Effect of dilutive potential ordinary shares on conversion of convertible notes and employee share option	<u>672,414,919</u>	<u>672,222,222</u>	<u>756,277,017</u>
Weighted average number of ordinary shares for the purpose of calculating the diluted earnings per share	<u><u>3,078,011,778</u></u>	<u><u>3,074,682,095</u></u>	<u><u>3,074,682,095</u></u>

14. INVESTMENT PROPERTIES

	2007	The Group 2006	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Balance at 1 January,	3,861	3,607	6,316
Additions	4	127	—
Disposal	—	—	(2,800)
Surplus on revaluation of investment properties	14	2	16
Exchange differences	<u>274</u>	<u>125</u>	<u>75</u>
Balance at 31 December,	<u><u>4,153</u></u>	<u><u>3,861</u></u>	<u><u>3,607</u></u>

Investment properties were revalued as at 31 December, 2007 by independent valuers. The basis of valuation for investment properties was open market value. The fair value gain during 2007 amounted to HK\$14 million (2006: HK\$2 million; 2005: HK\$16 million) was credited to the consolidated income statement as "Surplus on revaluation of investment properties".

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In the consolidated income statement, cost of sales includes HK\$18 million (2006: HK\$16 million; 2005: HK\$21 million) direct operating expenses that generate rental income while HK\$3 million (2006: HK\$2 million; 2005: HK\$3 million) direct operating expenses relating to investment properties that were unlet.

On 21 December, 2004, Partner Link Investments Limited (“Partner Link”), an indirectly wholly-owned subsidiary of the Company, entered into the Property Sales and Purchase Agreement with Richly Leader Limited (the “Purchaser”), a third party, for the disposal of PCCW Tower for a consideration of HK\$2,808 million in cash. The consideration was arrived at after arm’s length negotiations. The Property Sales and Purchase Agreement was completed on 7 February, 2005 and the Group had recorded a gain on disposal of HK\$8 million for 2005 (see note 33(i) for details of guarantee to the Purchaser by the Group in relation to this transaction).

The carrying amount of investment properties is analysed as follows:

	2007	The Group	
	<i>HK\$ million</i>	2006	2005
		<i>HK\$ million</i>	<i>HK\$ million</i>
Held in Hong Kong			
On medium-term lease (10-50 years)	49	35	33
Held in Mainland China			
On long lease (over 50 years)	769	730	696
On medium-term lease (10-50 years)	<u>3,335</u>	<u>3,096</u>	<u>2,878</u>
	<u>4,153</u>	<u>3,861</u>	<u>3,607</u>

15. PROPERTY, PLANT AND EQUIPMENT

	The Group			Total HK\$ million
	Freehold land HK\$ million	Buildings and structures HK\$ million	Other plant and equipment HK\$ million	
At 1 January, 2005				
At cost	—	—	53	53
Less : Accumulated depreciation	—	—	(18)	(18)
Net book value	<u>—</u>	<u>—</u>	<u>35</u>	<u>35</u>
Net book value at 1 January, 2005				
Additions	—	—	13	13
Depreciation	—	—	(11)	(11)
Net book value at 31 December, 2005	<u>—</u>	<u>—</u>	<u>37</u>	<u>37</u>
At 31 December, 2005				
At cost	—	—	67	67
Less: Accumulated depreciation	—	—	(30)	(30)
Net book value	<u>—</u>	<u>—</u>	<u>37</u>	<u>37</u>
Net book value at 1 January, 2006				
Additions	—	—	20	20
Depreciation	—	—	(15)	(15)
Exchange differences	—	—	1	1
Net book value at 31 December, 2006	<u>—</u>	<u>—</u>	<u>43</u>	<u>43</u>
At 31 December, 2006				
At cost	—	—	89	89
Less : Accumulated depreciation	—	—	(46)	(46)
Net book value	<u>—</u>	<u>—</u>	<u>43</u>	<u>43</u>
Net book value at 1 January, 2007				
Additions	—	—	18	18
Addition due to acquisition of ski operation of a subsidiary (note 35)	3	6	3	12
Depreciation	—	—	(15)	(15)
Exchange differences	—	—	2	2
Net book value at 31 December, 2007	<u>3</u>	<u>6</u>	<u>51</u>	<u>60</u>
At 31 December, 2007				
At cost	3	6	113	122
Less: Accumulated depreciation	—	—	(62)	(62)
Net book value	<u>3</u>	<u>6</u>	<u>51</u>	<u>60</u>

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

a. Properties under development/held for sale

	2007	The Group	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Properties under development	9,231	3,210	7,413
Less: Properties under development classified as non-current assets	<u>(795)</u>	<u>(1,979)</u>	<u>(1,875)</u>
	8,436	1,231	5,538
Properties held for sale	<u>697</u>	<u>290</u>	<u>131</u>
Properties under development/held for sale	<u><u>9,133</u></u>	<u><u>1,521</u></u>	<u><u>5,669</u></u>

- i. Pursuant to an agreement dated 17 May, 2000 entered into with the Government of the HKSAR (“Cyberport Project Agreement”), the Group was granted an exclusive right and obligation to design, develop, construct and market the Cyberport project at Telegraph Bay on the Hong Kong Island. The Cyberport project consists of commercial and residential portions. The completed commercial portion was transferred to the Government of the HKSAR at no consideration. The associated costs incurred have formed part of the development costs of the residential portion. Pre-sales of residential portion of the Cyberport project commenced in February 2003.

b. Properties held for development

	2007	The Group	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Balance at 1 January,	—	—	—
Additions	801	—	—
Exchange differences	<u>15</u>	<u>—</u>	<u>—</u>
Balance at 31 December,	<u><u>816</u></u>	<u><u>—</u></u>	<u><u>—</u></u>

Properties held for development represents freehold land in Japan and Thailand, for which the Group intends for future development projects. The land in Japan is held by a wholly-owned subsidiary, Nihon Harmony Resort K.K.. The land in Thailand is held by the Group through a long-term operating lease agreement with the legal owners, 39 percent owned entities, established to hold the land, which have been consolidated into these financial statements (*note 20*).

17. INTEREST IN LEASEHOLD LAND

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

	Lease in Hong Kong over 50 years <i>HK\$ million</i>	The Group Lease in Mainland China over 50 years <i>HK\$ million</i>	Total <i>HK\$ million</i>
Balance at 1 January, 2005	155	—	155
Transfer to properties under development	<u>(155)</u>	<u>—</u>	<u>(155)</u>
Balance at 31 December, 2005	<u>—</u>	<u>—</u>	<u>—</u>
Balance at 1 January, 2006	—	—	—
Addition	—	495	495
Amortisation	—	(5)	(5)
Exchange differences	<u>—</u>	<u>12</u>	<u>12</u>
Balance at 31 December, 2006	<u>—</u>	<u>502</u>	<u>502</u>
Balance at 1 January, 2007	—	502	502
Amortisation	—	(7)	(7)
Exchange differences	—	36	36
Transfer to properties under development	<u>—</u>	<u>(531)</u>	<u>(531)</u>
Balance at 31 December, 2007	<u>—</u>	<u>—</u>	<u>—</u>

As at 31 December, 2007, the net book value of leasehold land included in properties under development was approximately HK\$686 million (2006: HK\$155 million; 2005: HK\$155 million).

18. GOODWILL

	2007	The Group 2006	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Cost			
Balance at 1 January,	81	81	84
Addition due to acquisition of ski operation of a subsidiary (<i>note 35</i>)	10	—	—
Exchange differences	2	—	—
Elimination of accumulated amortisation (<i>note a</i>)	<u>—</u>	<u>—</u>	<u>(3)</u>
Balance at 31 December,	<u>93</u>	<u>81</u>	<u>81</u>
Accumulated amortisation			
Balance at 1 January, (<i>note a</i>)	—	—	(3)
Elimination against cost of goodwill (<i>note a</i>)	<u>—</u>	<u>—</u>	<u>3</u>
Balance at 31 December,	<u>—</u>	<u>—</u>	<u>—</u>
Net Book Value			
Balance at 31 December,	<u>93</u>	<u>81</u>	<u>81</u>
Balance at 1 January,	<u>81</u>	<u>81</u>	<u>81</u>

- a. From 1 January, 2005 onwards, the Group ceased amortisation of goodwill and the accumulated amortisation as at 31 December, 2004 was eliminated with a corresponding decrease in the cost of goodwill.

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

	2007	The Group 2006	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Property development division	81	81	81
Other business - ski operation	<u>12</u>	<u>—</u>	<u>—</u>
Balance at 31 December,	<u>93</u>	<u>81</u>	<u>81</u>

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

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19. INVESTMENT IN SUBSIDIARIES

	The Company		
	2007	2006	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Unlisted shares, at cost	<u>2,870</u>	<u>2,870</u>	<u>2,870</u>

Dividends from the Mainland China entities accounted for as subsidiaries will be declared based on the profits in the statutory financial statements of these Mainland China entities which are prepared using accounting principles generally accepted in The People's Republic of China. Such profits are different from the amounts reported under HKFRS.

As at 31 December, 2007, the Group has financed the operations of certain of its entities in Mainland China amounting to approximately US\$117 million (2006: US\$117 million; 2005: US\$117 million) which have not been registered with the State Administration of Foreign Exchange. As a result, remittances in foreign currency of these amounts outside Mainland China may be restricted.

The balances with subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment. The amounts due from subsidiaries as at 31 December, 2007 were HK\$2,913 million (2006: HK\$2,423 million; 2005: HK\$4,039 million).

20. PRINCIPAL SUBSIDIARIES AND ENTITIES CONSOLIDATED INTO THE FINANCIAL STATEMENTS

Company name	Place of incorporation/ operations	Principal activities	Nominal value of issued capital/ registered capital	Equity interest attributable to the Company	
				Directly	Indirectly
ACCA Investment Limited	Hong Kong	Property holding	HK\$2	—	100%
Beijing Jing Wei House and Land Estate Development Co., Ltd. 北京京威房地產開發 有限公司 ¹	The People's Republic of China	Property development	US\$100,000,000	—	100%
Beijing Jingwei Property Management Co., Ltd. 北京京威物業管理 有限公司 ²	The People's Republic of China	Property management	US\$150,000	—	100%
北京啟夏房地產開發有限公司 ³	The People's Republic of China	Property development	US\$78,000,000	—	100%
Carlyle International Limited	Hong Kong	Entrustment work	HK\$2	—	100%
Carmay Investment Limited	Hong Kong	Property holding	HK\$2	—	100%
Cyber-Port Limited	Hong Kong	Property development	HK\$2	—	100%
Cyber-Port Management Limited	Hong Kong	Provision of project management services	HK\$2	—	100%
Ipswich Holdings Limited	British Virgin Islands	Investment holding	US\$2	100%	—

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

Notes:

¹ Represents a Sino-foreign cooperative joint venture.

² Represents a wholly foreign investment enterprise.

³ Represents a wholly foreign owned enterprise.

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

21. INVESTMENT IN UNCONSOLIDATED SUBSIDIARIES HELD FOR SALE

	The Group		
	2007 <i>HK\$ million</i>	2006 <i>HK\$ million</i>	2005 <i>HK\$ million</i>
Unlisted shares, at cost	—	—	55
Less: Provision for impairment in value	—	—	(10)
	<u>—</u>	<u>—</u>	<u>45</u>

In respect of certain subsidiaries of the Company acquired and held exclusively with a view to resale, the investment in these subsidiaries of the Company was accounted for as investment in unconsolidated subsidiaries held for sale and stated at the lower of carrying amount and fair value less costs to sell, of approximately HK\$45 million as at 31 December, 2005. The results of these unconsolidated subsidiaries were excluded from the consolidated income statement except that the Group had recorded impairment provision of HK\$6 million in 2005.

An agreement was entered during 2005 with Asian Century Properties Limited, a British Virgin Islands company, for the disposal of the Company's entire interest in the gas operation, payable by instalments in 2006. The Group received HK\$10 million from Asian Century Properties Limited in 2006 and a provision of HK\$25 million was made against the outstanding sales consideration receivable. This provision reduced the carrying value of the receivable to HK\$10 million as at 31 December, 2006, which was subsequently recovered in January 2007.

22. CURRENT ASSETS AND LIABILITIES

a. Sales proceeds held in stakeholders' accounts

The balance represents proceeds from the sales of the residential portion of the Cyberport project retained in bank accounts opened and maintained by stakeholders. These amounts will be transferred to specific bank accounts, which are restricted in use, pursuant to certain conditions and procedures as stated in the Cyberport Project Agreement. The sales proceeds held in stakeholders' accounts of HK\$2,425 million as at 31 December, 2007 (2006: HK\$3,472 million; 2005: HK\$4,293 million) are exposed to credit risk.

b. Restricted cash

Pursuant to the Cyberport Project Agreement, the Group has a restricted cash balance of approximately HK\$575 million as at 31 December, 2007 (2006: HK\$826 million; 2005: HK\$1,332 million) held in specific bank accounts. The uses of the funds are specified in the Cyberport Project Agreement.

c. Trade receivables, net

An aging analysis of trade receivables is set out below:

	The Group		
	2007	2006	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Current	330	418	172
One to three months	1	—	64
More than three months	1	20	3
	<u>332</u>	<u>438</u>	<u>239</u>

The normal credit period granted by the Group ranges up to 30 days from the date of the invoice unless there is separate mutual agreement on extension of the credit period. Trade receivables of HK\$332 million (2006: HK\$438 million; 2005: HK\$239 million) are exposed to credit risk. Trade receivables of HK\$302 million as at 31 December, 2007 is due from an independent customer that was not yet due and there is no history of default relating to this customer. The remaining balance in trade receivables relates to a number of independent customers for whom there is no recent history of default. As at 31 December, 2007, the trade receivables balance were fully performing.

Trade receivables that are less than three months past due is not considered impaired. As at 31 December, 2007, trade receivables of HK\$1 million (2006: HK\$20 million; 2005: HK\$3 million) was past due over three months but not impaired. This relates to a number of independent customers for whom there is no recent history of default. The aging analysis of this trade receivables is as follows:

	2007	The Group 2006	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Three to six months	1	13	3
Six months to twelve months	<u>—</u>	<u>7</u>	<u>—</u>
	<u>1</u>	<u>20</u>	<u>3</u>

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

	2007	The Group 2006	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Hong Kong dollar	327	437	238
Renminbi	1	1	1
Japanese yen	<u>4</u>	<u>—</u>	<u>—</u>
	<u>332</u>	<u>438</u>	<u>239</u>

d. **Trade payables**

An aging analysis of trade payables is set out below:

	2007	The Group 2006	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Current	111	80	181
One to three months	3	5	5
More than three months	<u>—</u>	<u>8</u>	<u>—</u>
	<u>114</u>	<u>93</u>	<u>186</u>

e. **Accruals, other payables and deferred income**

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

f. Gross amounts due to customers for contract works

	2007	The Group 2006	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Contract costs incurred plus attributable profits less foreseeable losses	779	779	784
Less: Estimated value of work performed	<u>(786)</u>	<u>(786)</u>	<u>(795)</u>
	<u>(7)</u>	<u>(7)</u>	<u>(11)</u>

The total amount of progress billings, included in the estimated value of work performed as at 31 December, 2007, was approximately HK\$786 million (2006: HK\$786 million; 2005: HK\$782 million).

23. LONG-TERM BORROWINGS

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

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

	The Group 2005		
	Long-term borrowings	Convertible notes reserve	Total
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Balance at 1 January, 2005	2,516	1,160	3,676
Finance costs charged to consolidated income statement (<i>note a</i>)	127	—	127
Reduction in balances as a result of the Conversion (<i>note b</i>)	(816)	(391)	(1,207)
Interest paid	<u>(12)</u>	<u>—</u>	<u>(12)</u>
	1,815	769	2,584
Interest amount payable included in amounts due to fellow subsidiaries	<u>(12)</u>	<u>—</u>	<u>(12)</u>
Balance at 31 December, 2005	1,803	769	2,572
Less: Amount classified as current liabilities	<u>(24)</u>	<u>—</u>	<u>(24)</u>
	<u>1,779</u>	<u>769</u>	<u>2,548</u>

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	The Company 2006 and 2007		
	Long-term borrowings	Convertible notes reserve	Total
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Balance at 1 January, 2006	1,779	769	2,548
Novation of convertible notes (tranche B note due 2014) to an indirectly wholly-owned subsidiary (<i>note c</i>)	<u>(1,779)</u>	<u>(769)</u>	<u>(2,548)</u>
Balance at 31 December, 2006, 1 January, 2007 and 31 December, 2007	<u>—</u>	<u>—</u>	<u>—</u>

	The Company 2005		
	Long-term borrowings	Convertible notes reserve	Total
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Balance at 1 January, 2005	2,516	1,160	3,676
Finance costs charged to income statement (<i>note a</i>)	127	—	127
Reduction in balances as a result of the Conversion (<i>note b</i>)	<u>(816)</u>	<u>(391)</u>	<u>(1,207)</u>
Interest paid	<u>(12)</u>	<u>—</u>	<u>(12)</u>
	1,815	769	2,584
Interest amount payable included in amount due to a fellow subsidiary	<u>(12)</u>	<u>—</u>	<u>(12)</u>
Balance at 31 December, 2005	1,803	769	2,572
Less: Amount classified as current liabilities	<u>(24)</u>	<u>—</u>	<u>(24)</u>
	<u>1,779</u>	<u>769</u>	<u>2,548</u>

Long-term borrowings comprise the outstanding principal amount of the convertible notes or any part that may, at the discretion of PCCW or its designated subsidiary, the holder of the notes, be converted into the ordinary shares of the Company, issued to PCCW or its designated subsidiary at any time and from time to time on or after the date of issue (but on or prior to the maturity date) at the relevant conversion price.

- a. Interest expense on the convertible notes is calculated using the effective interest method by applying the effective interest rate of 6.87 percent (2006: 6.87 percent; 2005: 6.87 percent) to the liability component.
- b. On 24 February, 2005, PCCW elected to convert the tranche A note due 2011 with a principal amount of HK\$1,170 million into new shares of HK\$0.10 each at HK\$2.25 per share pursuant to the terms of the tranche A note (the "Conversion"). The Company issued 520,000,000 ordinary shares to a wholly-owned subsidiary of PCCW as a result of the Conversion and increased its issued equity by HK\$52 million (see note 25(c)).
- c. The tranche B note due 2014 with a principal amount of HK\$2,420 million could be converted into new shares of HK\$0.10 each at a conversion price of HK\$3.6 per share, subject to adjustment. The tranche B note may be

redeemed at 120 percent of the outstanding principal amount if conversion does not occur. Effective from 1 January, 2006, the Company novated the tranche B note to an indirectly wholly-owned subsidiary at a consideration of HK\$2,128 million. The terms of the tranche B note remain unchanged after the novation that the noteholder retains the right to convert such note into 672,222,222 shares of the Company at HK\$3.6 per share. The Company has granted rights to this indirectly wholly-owned subsidiary to purchase the same number of shares of the Company at HK\$3.6 per share with expiry in 2014. The Company has recorded this call option at its fair value on the date of grant at HK\$222 million under other reserve in equity (see note 28).

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

	Government share under the Cyberport Project Agreement (note a) HK\$ million	The Group 2007	
		Others HK\$ million	Total HK\$ million
Balance at 1 January, 2007	3,480	25	3,505
Additional amount payable included in properties under development	6,745	—	6,745
Additional amount payable	—	33	33
Settlement during the year	<u>(3,339)</u>	<u>(25)</u>	<u>(3,364)</u>
Balance at 31 December, 2007	6,886	33	6,919
Less: Amount classified as current liabilities	<u>(5,145)</u>	<u>(33)</u>	<u>(5,178)</u>
	<u>1,741</u>	<u>—</u>	<u>1,741</u>
		The Group 2006	
	Government share under the Cyberport Project Agreement (note a) HK\$ million	Others HK\$ million	Total HK\$ million
Balance at 1 January, 2006	6,705	29	6,734
Additional amount payable included in properties under development	390	—	390
Additional amount payable	—	16	16
Settlement during the year	<u>(3,615)</u>	<u>(20)</u>	<u>(3,635)</u>
Balance at 31 December, 2006	3,480	25	3,505
Less: Amount classified as current liabilities	<u>(1,889)</u>	<u>(25)</u>	<u>(1,914)</u>
	<u>1,591</u>	<u>—</u>	<u>1,591</u>

	The Group		
	2005		
	Government share under the Cyberport Project Agreement (note a) HK\$ million	Others HK\$ million	Total HK\$ million
Balance at 1 January, 2005	6,380	31	6,411
Additional amount payable included in properties under development	1,648	—	1,648
Additional amount payable made	—	12	12
Settlement during the year	<u>(1,323)</u>	<u>(14)</u>	<u>(1,337)</u>
Balance at 31 December, 2005	6,705	29	6,734
Less: Amount classified as current liabilities	<u>(5,270)</u>	<u>(29)</u>	<u>(5,299)</u>
	<u>1,435</u>	<u>—</u>	<u>1,435</u>

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

25. ISSUED EQUITY

	The Group	
	Number of shares (note a)	Issued equity HK\$ million (note a)
Ordinary shares of HK\$0.10 each at 1 January, 2005	1,882,459,873	3,424
Issue of new shares for the Conversion of convertible notes tranche A (note c)	<u>520,000,000</u>	<u>1,207</u>
Ordinary shares of HK\$0.10 each at 31 December, 2005	2,402,459,873	4,631
Reduction of share premium (note d)	<u>—</u>	<u>(322)</u>
Ordinary shares of HK\$0.10 each at 31 December, 2006	2,402,459,873	4,309
Issue of new shares for exercise of share options (note e)	<u>5,000,000</u>	<u>12</u>
Ordinary shares of HK\$0.10 each at 31 December, 2007	<u>2,407,459,873</u>	<u>4,321</u>

- a. Due to the use of reverse acquisition basis of accounting (as stated in note 2(d) to the 2004 Financial Statements), the amount of issued equity, which includes share capital and share premium in the consolidated balance sheet, represents the amount of issued equity of the legal subsidiary, Ipswich Holdings Limited, at date of completion of the reverse acquisition plus equity changes attributable to the Group after the reverse acquisition. The equity structure (i.e. the number and type of shares) reflects the equity structure of the legal parent, Pacific Century Premium Developments Limited for all accounting periods presented.
- b. The following is the movement in the share capital of the Company:

	The Company	
	Number of shares	Nominal value
		<i>HK\$ million</i>
Authorised:		
Ordinary shares of HK\$0.10 each at 1 January, 2005, 31 December, 2005, 31 December, 2006 and 31 December, 2007	<u>10,000,000,000</u>	<u>1,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each at 1 January, 2005	1,882,459,873	188
Issue of new shares for the Conversion of convertible notes tranche A (<i>note c</i>)	<u>520,000,000</u>	<u>52</u>
Ordinary shares of HK\$0.10 each at 31 December, 2005 and 31 December, 2006	2,402,459,873	240
Issue of new shares for exercise of share options (<i>note e</i>)	<u>5,000,000</u>	<u>1</u>
Ordinary shares of HK\$0.10 each at 31 December, 2007	<u>2,407,459,873</u>	<u>241</u>

- c. On 24 February, 2005, PCCW elected to convert the tranche A note due 2011 with a principal amount of HK\$1,170 million into new shares of HK\$0.10 each at HK\$2.25 per share pursuant to the terms of the tranche A note (the "Conversion"). The Company issued 520,000,000 ordinary shares to a wholly-owned subsidiary of PCCW as a result of the Conversion and increased its issued equity by HK\$52 million. Prior to the Conversion, PCCW held approximately 51.07 percent of the issued shares of the Company. Immediately after the Conversion, PCCW held approximately 61.66 percent of the enlarged issued share capital of the Company.
- d. On 16 May, 2006, a special resolution was passed at the Company's Annual General Meeting approving the reduction of share premium by cancelling a sum of approximately HK\$322 million standing to the credit of the Company's share premium account against the accumulated losses of the Company of same amount.
- e. During the year, 5,000,000 share options were exercised by an eligible option holder at HK\$2.375 for a total cash consideration of HK\$11,875,000 resulting in the issue of 5,000,000 new ordinary shares of HK\$0.10 each.

26. EMPLOYEE RETIREMENT BENEFITS**a. Defined benefit retirement schemes**

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

The DB Schemes are funded by contributions from the Group and employees in accordance with qualified independent actuaries’ recommendation from time to time on the basis of periodic valuations.

On 31 October, 2005, all the benefits of active members in respect of service before 1 July, 2003 (i.e. the date on which all active members of the DB Schemes were transferred to defined contribution retirement schemes operated by PCCW for future services, with their benefits prior to that date remained unchanged) were transferred to defined contribution retirement schemes operated by PCCW (“Transfer of past DB benefits”) effective 1 November, 2005. The transfer value of each member was calculated to be the leaving service benefits as at 31 October, 2005, plus enhancement, if any. Enhancement is 50 percent of the increase in vested benefit based on vesting service up to 31 January, 2006. After the Transfer of past DB benefits, the DB Schemes no longer have defined benefit obligation attributed to the active members. This Transfer of past DB benefits was considered as a curtailment and settlement event under HKAS 19 “Employee Benefits”. In 2005, the Group injected approximately HK\$1 million to the DB Schemes to make up part of the funding deficit as at 31 October, 2005.

b. Defined contribution retirement schemes

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

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

Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5 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.

27. EQUITY COMPENSATION BENEFITS**Share option scheme**

In order to align the terms of the share option scheme of the Company with those of PCCW and in view of the limited number of shares capable of being issued relative to the current capital base of the Company, under the 2003 share option scheme, which was approved and adopted on 17 March, 2003 and was valid for ten years after the date of adoption, the shareholders of the Company approved the termination of the 2003 share option scheme and adoption of a new share option scheme (the “2005 Scheme”) at the Company’s annual general meeting held on 13 May, 2005. The 2005 Scheme became effective on 23 May, 2005 following its approval by the shareholders of PCCW. No further share options will be granted under the 2003 share option scheme following its termination, but the provisions of such scheme will remain in full force and effect with respect to the options granted (note (ii) below) prior to its termination.

Under the 2005 Scheme, the board of directors of the Company may, at its discretion, grant share options to any eligible person to subscribe for shares in the Company subject to the terms and conditions stipulated in the 2005 Scheme. The exercise price of the options under the 2005 Scheme is determined by the board of directors of the Company in its absolute discretion but in any event shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotations sheet of the Stock Exchange on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheet of the Stock Exchange for the five days last preceding the date of grant on which days it has been possible to trade shares on the Stock Exchange; and (iii) the nominal value of the share of the Company on the date of grant. The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2005 Scheme and any other share option schemes of the Company must not exceed 30 percent of the shares in issue from time to time. In addition, the maximum number of shares in respect of which options may be granted under the 2005 Scheme shall not (when aggregated with any shares subject to any grants made after 23 May, 2005 pursuant to any other share option schemes of the Company) exceed 10 percent of the issued share capital of the Company on 23 May, 2005 (or some other date if renewal of this limit is approved by shareholders).

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

(i) Movements in share options

	Number of options		
	2007	2006	2005
Balance at 1 January,	10,000,000	10,000,000	10,000,000
Exercised during the year	<u>(5,000,000)</u>	<u>—</u>	<u>—</u>
Balance at 31 December, <i>(note (ii))</i>	<u>5,000,000</u>	<u>10,000,000</u>	<u>10,000,000</u>
Options vested at 31 December,	<u>5,000,000</u>	<u>10,000,000</u>	<u>10,000,000</u>

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

Date of grant	Exercise period	2007		2006		2005		Number of options
		Exercise price <i>HK\$</i>	Consideration received <i>HK\$</i>	Number of options	Consideration received	Number of options	Consideration received <i>HK\$</i>	
20 December, 2004	20 December, 2004 to 19 December, 2014	2,375	2	5,000,000	2	10,000,000	2	10,000,000
			<u>2</u>	<u>5,000,000</u>	<u>2</u>	<u>10,000,000</u>	<u>2</u>	<u>10,000,000</u>

During the years ended 31 December, 2005, 31 December, 2006 and 31 December, 2007, no share options were granted under the 2005 Scheme or 2003 share option scheme. All of the share options granted related to 2003 share option scheme remained unexpired as at 31 December, 2007.

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

	2007		2006		2005	
	Average exercise price in HK\$ per share	Number of options	Average exercise price in HK\$ per share	Number of options	Average exercise price in HK\$ per share	Number of options
Balance at 1 January,	2.375	10,000,000	2.375	10,000,000	2.375	10,000,000
Exercised during the year	2.375	<u>(5,000,000)</u>	—	<u>—</u>	—	<u>—</u>
Balance at 31 December,	2.375	<u>5,000,000</u>	2.375	<u>10,000,000</u>	2.375	<u>10,000,000</u>

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

The weighted average share price at the date of exercise for share options exercised during 2007 was HK\$2.46 (2006: not applicable; 2005: not applicable).

The total fair value of the share options granted in December 2004 under 2003 share option scheme determined using the trinomial option pricing model was HK\$12.9 million using share price of HK\$2.325, exercise price of HK\$2.375, risk-free interest rate of 3.95 percent, volatility of 0.50 with expected life for ten years and no expected dividend per share. As the share options were vested before 1 January, 2005, no expenses were charged to the current and prior years' consolidated income statements as allowed by the transitional provision of HKFRS 2 "Share-based Payment".

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28. RESERVES

	The Group 2007						
	Issued equity	Capital reserve	Currency translation reserve	Convertible notes reserve	Employee share-based compensation reserve	Retained earnings	Total
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Balance at 1 January, 2007	4,309	(565)	199	769	17	1,954	6,683
Exchange differences	—	—	313	—	—	—	313
Net income recognised directly in equity	—	—	313	—	—	—	313
Profit for the year	—	—	—	—	—	784	784
Total recognised income for 2007	—	—	313	—	—	784	1,097
Issue of new shares for exercise of share options (<i>note 25(e)</i>)	12	—	—	—	—	—	12
2006 final dividend paid	—	—	—	—	—	(132)	(132)
2007 interim dividend paid	—	—	—	—	—	(36)	(36)
Balance at 31 December, 2007	<u>4,321</u>	<u>(565)</u>	<u>512</u>	<u>769</u>	<u>17</u>	<u>2,570</u>	<u>7,624</u>

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	The Group 2006						
	Issued equity	Capital reserve	Currency translation reserve	Convertible notes reserve	Employee share-based compensation reserve	Retained earnings	Total
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Balance at 1 January, 2006	4,631	(565)	72	769	15	835	5,757
Exchange differences	—	—	127	—	—	—	127
Net income recognised directly in equity	—	—	127	—	—	—	127
Profit for the year	—	—	—	—	—	965	965
Total recognised income for 2006	—	—	127	—	—	965	1,092
Share premium reduction (<i>note 25(d)</i>)	(322)	—	—	—	—	322	—
Value of employee services under employee share option scheme	—	—	—	—	2	—	2
2005 final dividend paid	—	—	—	—	—	(132)	(132)
2006 interim dividend paid	—	—	—	—	—	(36)	(36)
Balance at 31 December, 2006	<u>4,309</u>	<u>(565)</u>	<u>199</u>	<u>769</u>	<u>17</u>	<u>1,954</u>	<u>6,683</u>

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	The Group 2005						
	Issued equity	Capital reserve	Currency translation reserve	Convertible notes reserve	Employee share-based compensation reserve	Retained earnings	Total
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Balance at 1 January, 2005	3,424	(565)	—	1,160	10	442	4,471
Exchange differences	—	—	72	—	—	—	72
Net income recognised directly in equity	—	—	72	—	—	—	72
Profit for the year	—	—	—	—	—	597	597
Total recognised income for 2005	—	—	72	—	—	597	669
Issue of ordinary shares upon Conversion of convertible notes (note 25(c))	1,207	—	—	(391)	—	—	816
Value of employee services under employee share option scheme	—	—	—	—	5	—	5
2004 final dividend paid	—	—	—	—	—	(168)	(168)
2005 interim dividend paid	—	—	—	—	—	(36)	(36)
Balance at 31 December, 2005	<u>4,631</u>	<u>(565)</u>	<u>72</u>	<u>769</u>	<u>15</u>	<u>835</u>	<u>5,757</u>

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	The Company 2007						
	Share premium	Capital redemption reserve	Other reserve	Contributed surplus	Employee share-based compensation reserve	Retained earnings	Total
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Balance at 1 January, 2007	3,871	1	769	21	17	373	5,052
Profit for the year	—	—	—	—	—	645	645
Total recognised income for 2007	—	—	—	—	—	645	645
Issue of new shares for exercise of share options (<i>note 25(e)</i>)	11	—	—	—	—	—	11
2006 final dividend paid	—	—	—	(21)	—	(111)	(132)
2007 interim dividend paid	—	—	—	—	—	(36)	(36)
Balance at 31 December, 2007	<u>3,882</u>	<u>1</u>	<u>769</u>	<u>—</u>	<u>17</u>	<u>871</u>	<u>5,540</u>

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	The Company							
	2006							
	Share premium	Capital redemption reserve	Convertible notes reserve	Other reserve	Contributed surplus	Employee share-based compensation reserve	(Deficit)/ Retained earnings	Total
<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	
Balance at 1 January, 2006	4,193	1	769	—	189	15	(322)	4,845
Profit for the year	—	—	—	—	—	—	373	373
Total recognised income for 2006	—	—	—	—	—	—	373	373
Share premium reduction (note 25(d))	(322)	—	—	—	—	—	322	—
Novation of convertible notes (tranche B note due 2014) to an indirectly wholly-owned subsidiary (note 23(c))	—	—	(769)	547	—	—	—	(222)
Call option issued to an indirectly wholly-owned subsidiary in relation to novation of convertible notes (tranche B note due 2014) (note 23(c))	—	—	—	222	—	—	—	222
Value of employee services under employee share option scheme	—	—	—	—	—	2	—	2
2005 final dividend paid	—	—	—	—	(132)	—	—	(132)
2006 interim dividend paid	—	—	—	—	(36)	—	—	(36)
Balance at 31 December, 2006	<u>3,871</u>	<u>1</u>	<u>—</u>	<u>769</u>	<u>21</u>	<u>17</u>	<u>373</u>	<u>5,052</u>

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	The Company 2005							
	Share premium	Capital redemption reserve	Convertible notes reserve	Other reserve	Contributed surplus	Employee share-based	Deficit	Total
						compensation reserve		
<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Balance at 1 January, 2005	3,038	1	1,160	—	393	10	(197)	4,405
Loss for the year	—	—	—	—	—	—	(125)	(125)
Total recognised loss for 2005	—	—	—	—	—	—	(125)	(125)
Issue of ordinary shares upon conversion of convertible notes (note 25(c))	1,155	—	(391)	—	—	—	—	764
Value of employee services under employee share option scheme	—	—	—	—	—	5	—	5
2004 final dividend paid	—	—	—	—	(168)	—	—	(168)
2005 interim dividend paid	—	—	—	—	(36)	—	—	(36)
Balance at 31 December, 2005	<u>4,193</u>	<u>1</u>	<u>769</u>	<u>—</u>	<u>189</u>	<u>15</u>	<u>(322)</u>	<u>4,845</u>

29. EMPLOYEE SHARE-BASED COMPENSATION RESERVE

	The Group		
	2007	2006	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
At 1 January,	17	15	10
Employee share option benefits	<u>—</u>	<u>2</u>	<u>5</u>
At 31 December,	<u>17</u>	<u>17</u>	<u>15</u>

The share options are granted to the directors and employees of the Group to subscribe for shares in PCCW or the Company in accordance with the terms and conditions of the share option scheme (note 2(u)(iii)).

30. DEFERRED TAXATION

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

	The Group				
	Accelerated tax depreciation	Revaluation of properties	Tax losses	Others	Total
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
At 1 January, 2005	186	65	—	9	260
Charged/(Credited) to consolidated income statement (<i>note 11</i>)	48	3	(11)	(21)	19
Reclassification of deferred tax assets previously provided	(41)	75	—	—	34
Exchange differences	<u>3</u>	<u>3</u>	<u>—</u>	<u>—</u>	<u>6</u>
At 31 December, 2005	<u>196</u>	<u>146</u>	<u>(11)</u>	<u>(12)</u>	<u>319</u>
At 1 January, 2006	196	146	(11)	(12)	319
Charged/(Credited) to consolidated income statement (<i>note 11</i>)	33	(3)	11	3	44
Exchange differences	<u>7</u>	<u>5</u>	<u>—</u>	<u>—</u>	<u>12</u>
At 31 December, 2006	<u>236</u>	<u>148</u>	<u>—</u>	<u>(9)</u>	<u>375</u>
At 1 January, 2007	236	148	—	(9)	375
Credited to consolidated income statement (<i>note 11</i>)	(32)	(34)	—	(6)	(72)
Exchange differences	<u>16</u>	<u>9</u>	<u>—</u>	<u>(2)</u>	<u>23</u>
At 31 December, 2007	<u>220</u>	<u>123</u>	<u>—</u>	<u>(17)</u>	<u>326</u>

	The Group		
	2007	2006	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Deferred tax liabilities recognised in the consolidated balance sheet	348	389	344
Less: Amount netted off against deferred tax assets recognised in the consolidated balance sheet	<u>(22)</u>	<u>(14)</u>	<u>(25)</u>
Balance at 31 December,	<u>326</u>	<u>375</u>	<u>319</u>

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

	Tax losses <i>HK\$ million</i>	The Group 2007 Others <i>HK\$ million</i>	Total <i>HK\$ million</i>
At 1 January, 2005 and 31 December, 2005	<u>2</u>	<u>—</u>	<u>2</u>
At 1 January, 2006	2	—	2
Charged to consolidated income statement (<i>note 11</i>)	<u>(1)</u>	<u>—</u>	<u>(1)</u>
At 31 December, 2006	<u>1</u>	<u>—</u>	<u>1</u>
At 1 January, 2007	1	—	1
(Charged)/Credited to consolidated income statement (<i>note 11</i>)	<u>(1)</u>	<u>10</u>	<u>9</u>
At 31 December, 2007	<u>—</u>	<u>10</u>	<u>10</u>

- c. The Group has unrecognised estimated tax losses of HK\$225 million as at 31 December, 2007 (2006: HK\$136 million; 2005: HK\$71 million) to be carried forward for deduction against future taxable profits. HK\$60 million (2006: Nil; 2005: Nil) tax losses relating to overseas companies would be expired within five to seven years from 31 December, 2007, the remaining HK\$165 million (2006: HK\$136 million; 2005: HK\$71 million) tax losses are mainly relating to Hong Kong companies which can be carried forward indefinitely.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2007	The Group 2006	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Profit before taxation	870	1,160	710
Adjustments for:			
Interest income	(275)	(376)	(222)
Finance costs	133	130	127
Provision of rental guarantee	6	—	41
Impairment loss	11	25	6
Gain on disposal of an investment property	—	—	(8)
Unrealised loss on derivative financial instrument	7	—	—
Depreciation	15	15	11
Amortisation of leasehold land	7	5	—
Provision for doubtful debts	—	—	7
Surplus on revaluation of investment properties	(14)	(2)	(16)
Foreign exchange loss	—	2	—
Value of employee services under employee share option scheme	—	2	5
Operating profit before changes in working capital	760	961	661

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	2007	The Group 2006	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Decrease/(Increase) in operating assets:			
- properties under development/held for sale	(5,897)	4,044	(838)
- properties held for development	(801)	—	—
- interest in leasehold land	—	(260)	—
- other non-current receivables	(16)	(7)	—
- prepayments, deposits and other current assets	(25)	32	(16)
- sales proceeds held in stakeholders' accounts	1,047	821	125
- restricted cash	251	506	(428)
- trade receivables	107	(199)	(147)
- amounts due from fellow subsidiaries	(5)	5	2
- amounts due from related companies	2	(3)	5
Increase/(Decrease) in operating liabilities:			
- trade payables, accruals, other payables and deferred income	(167)	(491)	129
- deposits received on sales of properties	1,846	(724)	822
- gross amounts due to customers for contract work	—	(4)	6
- amounts due to fellow subsidiaries	(2)	(7)	2
- amount due to ultimate holding company	(1,195)	(1,985)	(727)
- amount payable to the Government of the HKSAR under the Cyberport Project Agreement	3,414	(3,229)	323
- other long-term liabilities	72	(19)	(46)
Cash used in operations	(609)	(559)	(127)
Interest paid	(24)	(24)	(28)
Interest received	277	389	198
Tax paid			
- Hong Kong profits tax paid	(186)	(241)	(2)
- Mainland China income tax paid	(30)	—	(1)
Net cash (used in)/generated from operating activities	<u>(572)</u>	<u>(435)</u>	<u>40</u>

b. Analysis of cash and cash equivalents

	2007	The Group 2006	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Cash and bank balances	2,440	3,444	4,686
Less: Short-term deposits	(106)	(173)	(655)
Less: Restricted cash	<u>(575)</u>	<u>(826)</u>	<u>(1,332)</u>
Cash and cash equivalents at 31 December,	<u>1,759</u>	<u>2,445</u>	<u>2,699</u>

32. COMMITMENTS

a. Capital

	2007	The Group	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Authorised and contracted for	1,292	1,739	2,120
Authorised but not contracted for	<u>549</u>	<u>659</u>	<u>772</u>
	<u>1,841</u>	<u>2,398</u>	<u>2,892</u>

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

	2007	The Group	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Property development for Cyberport project (<i>note (i)</i>)	1,618	2,181	2,735
Property development for other projects	190	171	141
Investment properties	8	37	—
Property, plant and equipment	23	2	14
Others	<u>2</u>	<u>7</u>	<u>2</u>
	<u>1,841</u>	<u>2,398</u>	<u>2,892</u>

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

b. Operating leases

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

Land and buildings (as lessee)

	2007	The Group 2006	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Within 1 year	8	7	6
After 1 year but within 5 years	<u>15</u>	<u>12</u>	<u>2</u>
	<u>23</u>	<u>19</u>	<u>8</u>

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

Equipment (as lessee)

	2007	The Group 2006	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Within 1 year	4	2	7
After 1 year but within 5 years	<u>5</u>	<u>—</u>	<u>1</u>
	<u>9</u>	<u>2</u>	<u>8</u>

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

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

Land and buildings (as lessor)

	The Group		
	2007	2006	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Within 1 year	185	178	196
After 1 year but within 5 years	312	281	332
After 5 years	<u>—</u>	<u>1</u>	<u>45</u>
	<u>497</u>	<u>460</u>	<u>573</u>

33. GUARANTEES

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

	The Group			The Company		
	2007	2006	2005	2007	2006	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Performance guarantee	<u>1</u>	<u>1</u>	<u>1</u>	<u>—</u>	<u>—</u>	<u>—</u>

- (i) In 2005, Partner Link, an indirectly wholly-owned subsidiary of the Company, entered into the Property Sales and Purchase Agreement with the Purchaser, a third party, for the disposal of PCCW Tower. Under the Property Sales and Purchase Agreement, on completion of the disposal of the PCCW Tower, there is a rental guarantee pursuant to which Partner Link will undertake to the Purchaser that it will pay a guaranteed net monthly rental of approximately HK\$13.3 million to the Purchaser for a period of five years up to 7 February, 2010. As at 31 December, 2007, the Group had a provision of approximately HK\$9 million (2006: HK\$3 million; 2005: HK\$41 million) in relation to the rental guarantee over the remaining term of the guarantee period.
- (ii) In relation to the novation of the convertible notes (tranche B note due 2014) by the Company to an indirectly wholly-owned subsidiary, effective from 1 January, 2006, the Company has provided a guarantee to the noteholder in respect of the performance of the subsidiary's obligation under the convertible notes (tranche B note due 2014) including the due and punctual payment of all sums under the convertible notes and the issuances of 672,222,222 shares of the Company at HK\$3.6 per share upon conversion of the convertible notes by the noteholder (note 23(c)). Such guarantee has no impact to the Group's consolidated financial statements.

34. BANKING FACILITY

An indirectly wholly-owned subsidiary of the Company had been granted a banking facility amounting to approximately HK\$20 million from a bank for the purpose of providing guarantee to the Government of the HKSAR. Such facility is to be secured by a bank deposit placed by the subsidiary from time to time to secure the amount of guarantee issued by the bank. No guarantee was issued by the bank under this banking facility as at 31 December, 2005, 31 December, 2006 and 31 December, 2007.

35. BUSINESS COMBINATION

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

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

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

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

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

	The Group 2007
	<i>HK\$ million</i>
Purchase consideration settled in cash	23
Cash and cash equivalents of ski operation acquired	<u>—</u>
Cash outflow on acquisition of ski operation	<u><u>23</u></u>

There was no acquisition in the years ended 31 December, 2005 and 31 December, 2006.

36. MATERIAL RELATED PARTY TRANSACTIONS

The Group is controlled by PCCW which owns 61.53 percent (2006: 61.66 percent; 2005: 61.66 percent) of the Company's shares. The remaining 38.47 percent (2006: 38.34 percent; 2005: 38.34 percent) of the shares are widely held.

The following transactions were carried out with related parties:

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

	2007	The Group 2006	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Sales of services:			
- Fellow subsidiaries			
Facility management services	53	45	47
Office leases rental	11	11	14
- Related companies			
Facility management services	25	24	23
Office leases rental	3	2	—
Other services	—	2	—
	<u> </u>	<u> </u>	<u> </u>
Purchases of services:			
- Fellow subsidiaries			
Corporate services	4	5	10
Office sub-leases	8	8	10
Information technology and other logistic services	5	14	27
- Related companies			
Other services	1	—	—
	<u> </u>	<u> </u>	<u> </u>

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

During 2006, a fellow subsidiary of the Company paid approximately HK\$7 million (2005: HK\$1 million) to the Group for sharing the costs incurred for certain addition and alteration works conducted at a property development site where the fellow subsidiary was a tenant. There was no such payment in 2007.

The related party transactions in respect of items above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Stock Exchange's listing rules.

b. Details of key management compensation

	2007	The Group 2006	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Salaries and other short-term employee benefits	22	17	17
Bonuses	31	11	16
Directors' fee	1	1	1
Post-employment benefits	<u>2</u>	<u>1</u>	<u>1</u>
	56	30	35
Share-based compensation accounting adjustment (note (i))	<u>—</u>	<u>1</u>	<u>4</u>
	<u><u>56</u></u>	<u><u>31</u></u>	<u><u>39</u></u>

(i) Share-based compensation accounting adjustment involves calculation of the fair value of share options granted to certain directors under PCCW's share option scheme using trinomial option pricing model. The figures shown in the above table do not represent realisable gains which are affected by a combination of a number of factors, including, performance of PCCW's share price, vesting period and timing of exercise.

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

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

	2007	The Group 2006	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Receivables from related parties:			
- Fellow subsidiaries	10	5	10
- Related companies	<u>3</u>	<u>5</u>	<u>2</u>
	<u><u>13</u></u>	<u><u>10</u></u>	<u><u>12</u></u>
Payables to related parties:			
- Fellow subsidiaries	<u>15</u>	<u>17</u>	<u>24</u>

d. Loan from/amounts due to related parties

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

	2007	The Group 2006	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Loan from/amount due to ultimate holding company:			
Balance at 1 January,	1,195	3,180	7,528
Repayment of amount due to ultimate holding company	(1,195)	(1,985)	(727)
Conversion of convertible notes (tranche A note due 2011) (<i>note 23(b)</i>)	—	—	(1,170)
Interest expenses	—	—	24
Interest amount payable included in current liabilities	—	—	(12)
Interest paid	—	—	(12)
Provision for redemption premium	—	—	48
Convertible notes (tranche B note due 2014) assigned to a fellow subsidiary (<i>note (ii)</i>)	—	—	(2,499)
Balance at 31 December,	<u>—</u>	<u>1,195</u>	<u>3,180</u>

The balance due to ultimate holding company as at 31 December, 2005 and 31 December, 2006 was interest free and was recorded under the current liabilities in the consolidated balance sheet.

(ii) The movements of the loan from a fellow subsidiary of HK\$2,596 million as at 31 December, 2007 (2006: HK\$2,548 million; 2005: HK\$2,499 million) are as follow:

	2007	The Group 2006	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Loan from a fellow subsidiary:			
Balance at 1 January,	2,548	2,499	—
Interest expenses	24	24	—
Interest amount payable included in amounts due to fellow subsidiaries	(12)	(12)	—
Interest paid	(12)	(12)	—
Provision for redemption premium	48	49	—
Convertible notes (tranche B note due 2014) assigned from ultimate holding company	—	—	2,499
Balance at 31 December,	<u>2,596</u>	<u>2,548</u>	<u>2,499</u>

The loan from a fellow subsidiary represents the convertible notes (tranche B note due 2014) with principal value of HK\$2,420 million (see note 23(c) for details).

37. FINANCIAL RISK MANAGEMENT

The Group's investment policy is to prudently invest all surplus funds managed by the Group in a manner which will satisfy liquidity requirements, safeguard financial assets and manage risks while optimising return on investments.

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and fair value interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's performance.

Risk management is carried out by a central treasury department ("Group Treasury") under policies approved by the Board. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's business units. The Board provides principal policies for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing excess liquidity.

a. Foreign exchange risk

The Group operates in the Asia-Pacific region and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The risk management policy is to have the liquid assets mainly denominated in Hong Kong dollar, US dollar and Renminbi. As US dollar is pegged to Hong Kong dollar, the Group does not expect any significant movements in the US dollar/Hong Kong dollar exchange rate. The Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

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

	The Group					
	2007		2006		2005	
	US dollar	Pound sterling	US dollar	Pound sterling	US dollar	Pound sterling
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Short-term deposits	106	—	—	—	651	—
Cash and cash equivalents	525	—	707	—	79	12
	<u>631</u>	<u>—</u>	<u>707</u>	<u>—</u>	<u>730</u>	<u>12</u>

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

Sensitivity analysis for foreign currency exposure

A five percent appreciation of Hong Kong dollar against the following currencies at 31 December, 2007 would have decreased in profit after tax and equity by the amounts shown below. This represents the translation of financial assets and liabilities and the change in fair value of currency derivatives at the balance sheet date. It assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2005 and 2006.

	The Group					
	2007		2006		2005	
	Decrease in profit after tax	Decrease in currency translation reserve	Decrease in profit after tax	Decrease in currency translation reserve	Decrease in profit after tax	Decrease in currency translation reserve
<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	
US dollar	(32)	—	(35)	—	(36)	—
Pound sterling	—	—	—	—	(1)	—
Renminbi	—	(234)	—	(193)	—	(169)
Thai baht	—	(28)	—	—	—	—
Japanese yen	—	(10)	—	—	—	—
	<u>—</u>	<u>(10)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

The Company is not exposed to foreign exchange risk.

b. Credit risk

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

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

Cash and cash equivalents and short-term deposits

	2007	The Group 2006	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Aaa	298	687	775
Aa1	—	265	594
Aa2	112	—	—
Aa3	94	537	—
A1	701	—	313
A2	560	1,129	1,672
Baa1	99	—	—
Unrated	1	—	—
	<u>1,865</u>	<u>2,618</u>	<u>3,354</u>
Balance as at 31 December,	<u>1,865</u>	<u>2,618</u>	<u>3,354</u>

Restricted cash

	2007	The Group 2006	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Aa2	575	—	—
Aa3	—	826	1,332
	<u>575</u>	<u>826</u>	<u>1,332</u>
Balance as at 31 December,	<u>575</u>	<u>826</u>	<u>1,332</u>

c. **Liquidity risk**

Due to the dynamic nature of the Group's underlying businesses, prudent liquidity risk management implies maintaining sufficient cash and cash equivalents to meet operational needs and possible investment opportunities.

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

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

	The Group				Total contractual undiscounted cash flow	Carrying Amount
	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years		
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
At 31 December, 2005						
Trade payables	186	—	—	—	186	186
Accruals and other payables	1,603	—	—	—	1,603	1,603
Amounts due to fellow subsidiaries	24	—	—	—	24	24
Amount due to ultimate holding company	3,180	—	—	—	3,180	3,180
Amount payable to the Government of the HKSAR under the Cyberport Project Agreement	5,299	1,435	—	—	6,734	6,734
Long-term borrowings	24	24	73	2,985	3,106	1,803
Other long-term liabilities	—	33	1	—	34	34
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

d. **Fair value interest rate risks**

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to fair value interest rate risk since the Group's long-term borrowings are fixed rate borrowings. The Group's policy is to maintain stable cash flows by entering into fixed interest rate borrowings.

38. CAPITAL MANAGEMENT

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

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

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

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During 2007, the Group fully repaid the amount due to ultimate holding company from the surplus distribution from the Cyberport project (note 36(d)(i)) and the debt-to-adjusted capital ratio decreased to 11 percent as at 31 December, 2007. Management's strategy is to maintain the debt-to-adjusted capital ratio within 10 percent to 20 percent. The dividend payment in 2007 was maintained at the same level as in 2006 of HK\$168 million. The debt-to-adjusted capital ratios as at 31 December, 2005, 31 December, 2006 and 31 December, 2007 were as follows:

	The Group		
	2007	2006	2005
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Loan from a fellow subsidiary (note 36(d)(ii))	2,596	2,548	2,499
Amount due to ultimate holding company (note 36(d)(i))	—	1,195	3,180
Less: cash and cash equivalents (note 31(b))	(1,759)	(2,445)	(2,699)
Less: short-term deposits (note 31(b))	(106)	(173)	(655)
Net debt	<u>731</u>	<u>1,125</u>	<u>2,325</u>
Issued equity	4,321	4,309	4,631
Add: retained earnings	<u>2,570</u>	<u>1,954</u>	<u>835</u>
Adjusted capital	<u>6,891</u>	<u>6,263</u>	<u>5,466</u>
Debt-to-adjusted capital ratio	<u>11%</u>	<u>18%</u>	<u>43%</u>

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

39. POST BALANCE SHEET EVENTS

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

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

40. APPROVAL OF THE FINANCIAL STATEMENTS

The 2007 financial statements were approved by the board of directors on 6 March, 2008.

2. INDEBTEDNESS

At the close of business on 31 December, 2007, being the latest practicable date for the purpose of this indebtedness statement, the carrying amount of the liability portion of the Note in the PCPD Group's financial statements was HK\$2,013 million.

As at 31 December, 2007, the PCPD Group had total capital commitments in respect of the acquisition of property, plant and equipment, investment properties and property development amounting to approximately HK\$1,841 million.

At the close of business on 31 December, 2007, the PCPD Group had no material contingent liabilities.

Save as aforesaid and apart from intra-group liabilities, the PCPD Group did not have, at the close of business on 31 December, 2007, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, material obligations under hire purchase contracts or finance leases, guarantees, or other material contingent liabilities.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the exchange rates prevailing at the close of business on 31 December, 2007.

3. STATEMENT OF ADJUSTED NAV AND ADJUSTED NTAV

In the Announcement, the NAV of the Shares was calculated based on the latest published unaudited interim results of PCPD for the six months ended 30 June, 2007. Since the date of the Announcement, PCPD has, on 6 March, 2008, announced its audited financial results for the year ended 31 December, 2007, which results are reflected in Appendix I to this document. In addition, Savills has also prepared a valuation report on all the property interests held by the PCPD Group as at 29 February, 2008, a copy of which is reproduced in Appendix II to this document. Set out below

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is a statement of Adjusted NAV and Adjusted NTAV, which has been calculated based on the audited consolidated NAV of the PCPD Group as at 31 December, 2007 and adjusted as follows:

	<i>HK\$ million</i>
NAV as at 31 December, 2007	7,624
Adjustments:	
• Net surplus arising from the revaluation of the PCPD Group's interests in properties, including those properties under development, properties held for development/for sale and investment properties, as at 31 December, 2007 ⁽¹⁾	1,023
• Potential tax liability ⁽²⁾	(221)
• Note adjustment ⁽³⁾	(607)
Adjusted NAV	7,819
Less: Goodwill	(93)
Adjusted NTAV	<u>7,726</u>
Total number of issued Shares as at the Latest Practicable Date	<u>2,407,459,873</u>
Adjusted NAV per Share	<u>HK\$3.25</u>
Adjusted NTAV per Share	<u>HK\$3.21</u>

Notes:

- (1) In accordance with the requirements of Rule 11.1(f) of the Takeovers Code, the following property valuations have been performed:
- (a) The PCPD Group's properties under development and properties held for development/for sale were valued by Savills, as at 29 February, 2008. The net surplus of approximately HK\$1,024 million is arrived at after deducting the carrying amount of properties under development and properties held for development/for sale as reflected in the audited consolidated financial statements of the PCPD Group for the year ended 31 December, 2007.
- (b) The PCPD Group's investment properties in Beijing were valued by Savills as at 29 February, 2008. The market value of the PCPD Group's investment properties in Beijing as at 29 February, 2008 was HK\$4,103 million, which was approximately HK\$1 million less than the value as reflected in the PCPD Group's audited consolidated financial statements for the year ended 31 December, 2007.
- (c) The PCPD Group's investment properties in Hong Kong were valued by Savills on 18 January, 2008. As disclosed in PCPD's announcement dated 18 February, 2008, such investment properties were sold through the disposal of certain subsidiaries subsequently on 18 February, 2008. The selling price of HK\$51 million includes HK\$49 million for investment property and HK\$2 million for property, plant and equipment which was the same as reflected in the PCPD Group's audited consolidated financial statements for the year ended 31 December, 2007. Accordingly, no further adjustment is required in this statement of Adjusted NAV and Adjusted NTAV in this respect.

Your attention is drawn to the property valuation reports issued by Savills which is set out in Appendix II to this document.

- (2) This amount represents, for the PCPD Group's properties under development and completed properties held for sale that are located in Hong Kong, the calculated tax liability of approximately HK\$221 million which may arise if such property interests were to be sold at the revalued amount during the year ending 31 December, 2008, at a Hong Kong profits tax rate of 16.5% in accordance with Rule 11.3 of the Takeovers Code (subject to the approval by the Legislative Council in respect of the proposed reduction in Hong Kong profits tax rate from 17.5% to 16.5% starting from the fiscal year 2008/2009).
- (3) This represents the difference between the redemption amount of the Note which includes the principal value of HK\$2,420 million, accrued interest of approximately HK\$8 million, and proportionate redemption premium of approximately HK\$192 million for the period from 10 May, 2004 up to 30 April, 2008, in accordance with the terms and conditions of the Note dated 29 December, 2006 and the carrying amount of the Note as stated in the audited consolidated financial statements of the PCPD Group for the year ended 31 December, 2007, of approximately HK\$2,013 million.

4. MATERIAL CHANGES

The Directors are not aware of any material change in the financial or trading position or outlook of the PCPD Group since 31 December, 2007, the date to which the latest audited consolidated financial statements of the PCPD Group were made up.

The texts of a letter, summary of values and valuation certificate, prepared for the purpose of incorporation in this document, received from Savills Valuation and Professional Services Limited, an independent valuer, in connection with their valuations of the development rights and property interests of the PCPD Group as at 29 February, 2008 are set out below:



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Central, Hong Kong

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savills.com

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

25 March 2008

Dear Sirs

RE: VALUATION OF VARIOUS DEVELOPMENT RIGHTS AND PROPERTY INTERESTS IN HONG KONG, THE PEOPLE'S REPUBLIC OF CHINA ("THE PRC"), THE KINGDOM OF THAILAND ("THAILAND") AND JAPAN

In accordance with your instructions for us to value the various development rights and property interests held by Pacific Century Premium Developments Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") located in Hong Kong, the PRC, Thailand and Japan, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of these development rights and property interests as at 29 February 2008 for the purpose of incorporation in the scheme document of the Group dated 25 March 2008.

Our valuation is prepared in accordance with The HKIS Valuation Standards on Properties (1st Edition 2005) published by The Hong Kong Institute of Surveyors and in compliance with the requirements of Chapter 5 and Practice Note 12 of Listing Rules published by The Stock Exchange of Hong Kong Limited.

Our valuation of each of the development rights and property interests in Group I to Group VI is our opinion of the market value which we would define as intended to mean “the estimated amount for which the development rights or property interest should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

In respect of the development rights in the project in each of Group I and Group II, we have valued the rights by assessing the surplus proceeds receivable by the Group by reference to sale evidence as available in the market together with the contracted sales proceeds of units therein. We have allowed for the estimated government sharing of the surplus proceeds in the projects and the outstanding development costs including mainly construction cost, allocated overheads and related costs, sales and marketing cost and finance cost.

We have valued the property interest in Group III by assessing the market value of the completed development with reference to sales evidence as available in the market. We have allowed for the outstanding development costs including mainly construction and land costs, sales and marketing costs and finance cost.

We have valued the property interests in Group IV, V and VI by reference to sales evidence as available on the market and where appropriate on the basis of capitalization of the net income shown on schedules handed to us. We have allowed for outgoings and, in appropriate cases, made provisions for reversionary income potential.

The property interest in Group VII is valued by the depreciated replacement cost approach and the assessed value is based on an estimate of the market value for the existing use of the land plus the cost of replacement of the improvements less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. The assessed value is subject to adequate potential profitability of the business.

We have relied to a very considerable extent on information given by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, particulars of occupancy, lettings, development proposals, development costs, income sharing of joint venture partners, site and floor areas and all other relevant matters. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us and are therefore approximations. We have no reason to doubt the truth and accuracy of the information provided to us. We are also advised by the Group that no material facts have been omitted from the information provided.

We have also been provided with extracts of title documents relating to the development rights and property interests and we have caused searches to be made at the Land Registry for the concerned properties in Hong Kong. We have not, however, searched the original documents to verify ownership or to ascertain the existence of any amendment which does not appear on the copies handed to us. We do not accept a liability for any interpretation which we have placed on such information which is more properly the sphere of your legal advisers. We have relied on the advice given by the Group and its legal advisers, Haiwen & Partners and Zhong Lun Law Firm, on PRC laws, regarding the titles to the property interests in the PRC.

We have inspected the exterior of all the properties concerned and, where possible, we have also inspected the interior of the premises. However, no structural survey of the existing buildings has been made but, in the course of our inspection, we did not note any serious defects. We are not, however, able to report that the properties are free from rot, infestation or any other structural defect. No tests were carried out to any of the services.

We have not been able to carry out investigations on the development sites to determine the suitability of the ground conditions and services etc. for development. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delay will be incurred during construction periods.

No allowance has been made in our valuation for any charge, mortgage or amount owing on the development rights and property interests nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the development rights and property interests are free from encumbrances, restrictions, and outgoings of an onerous nature which could affect their values.

According to the information prepared by the Group, the potential tax liabilities which would arise on the disposal of the development rights and property interests under Group I to VII in this report at the amounts as valued by us comprise Hong Kong profits tax, Chinese business tax, Chinese land appreciation tax, Chinese corporate income tax, Chinese stamp duty and Thai value-added tax. As advised by the Group, depending on the then sale status, there is a likelihood of such liabilities being crystallised.

Unless otherwise stated, all money amounts stated in our valuation are in Hong Kong dollars. The exchange rates adopted in our valuation are HK\$1 = RMB0.9140, HK\$1 = THB3.9683 and HK\$1 = ¥13.3869 which were the approximate exchange rates prevailing as at the valuation date and there has been no significant fluctuation in such exchange rates between that date and the date of this letter.

We enclose herewith our summary of values and valuation certificate.

Yours faithfully
For and on behalf of
Savills Valuation and Professional Services Limited
Charles Chan
MSc FRICS FHKIS MCI Arb RPS (GP)
Managing Director

Note: Mr Charles C K Chan, chartered estate surveyor, MSc, FRICS, FHKIS, MCI Arb, RPS(GP), has been a qualified valuer since June 1987 and has about 23 years of experience in the valuation of properties and development rights in Hong Kong, about 17 years experience in the valuation of properties in the PRC and extensive experience in the valuation of properties in the Asia-Pacific Region including Thailand and Japan.

SUMMARY OF VALUES

No. Property	Market value in existing state as at 29 February 2008
Group I — Development Rights held by the Group in project for sale in Hong Kong	
1. Development Rights in 28 houses of Villa Bel-Air, Bel-Air On The Peak, 7 Bel-Air Peak Rise, Pokfulam, Hong Kong	HK\$945,000,000
Group II — Development Rights held by the Group in project under development in Hong Kong	
2. Development Rights in Bel-Air No. 8, Bel-Air On The Peak, Pokfulam, Hong Kong	HK\$2,218,000,000
Group III — Property interest held by the Group under development in Hong Kong	
3. 1 Wo Fung Street, Sheung Wan, Hong Kong	HK\$469,000,000
Group IV — Property interest held by the Group for investment in the PRC	
4. Unsold portion of Pacific Century Place, 2A Gong Ti Bei Lu, Chaoyang District, Beijing, PRC	HK\$4,103,000,000
Group V — Property interest held by the Group for future development in the PRC	
5. A parcel of land situated at 4 Gong Ti Bei Lu, Chaoyang District, Beijing, PRC	HK\$410,000,000

APPENDIX II**PROPERTY VALUATION OF THE PCPD GROUP**

No. Property **Market value in
existing state as at
29 February 2008**

Group VI — Property interest held by the Group for future development in Thailand

6. A parcel of land, HK\$585,000,000
Thai Muang Subdistrict,
Thai Muang District Phang-nga,
Greater Phuket, Thailand

No. Property **Capital value
in existing state as at
29 February 2008**

Group VII — Property interest held by the Group for future development in Japan

7. A parcel of land, HK\$50,000,000
Grand Hirafu Hanazono Area,
Niseko, Hokkaido, Japan

Total **HK\$8,780,000,000**

VALUATION CERTIFICATE

Group I — Development Rights held by the Group in project for sale in Hong Kong

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 29 February 2008
1. Development Rights in 28 houses of Villa Bel-Air, Bel-Air On The Peak, 7 Bel-Air Peak Rise, Pokfulam, Hong Kong Situated within Section B of Inland Lot No. 8969	Villa Bel-Air, is situated within Phase V of the residential development known as Residence Bel-Air. There are 29 garden/terraced houses completed in 2007. The property comprises 28 garden/terraced houses with a total gross floor area of the houses is approximately 16,858.88 sq m (181,469 sq ft). Inland Lot No. 8969 is held from the Government under Conditions of Grant No. UB12572 for a term of 50 years commencing on 22 May 2000 at an annual Government rent at 3% of the rateable value for the time being of the lot.	The property is vacant.	HK\$945,000,000

Notes:

- (1) The development rights is held by Cyber-Port Limited, in which the Group has a 100% interest, under a Project Agreement (the "Agreement") dated 17 May 2000 between Hong Kong Cyberport Development Holdings Limited, Hong Kong Cyberport Management Company Limited, Hong Kong Cyberport (Ancillary Development) Limited (together refer to as "FSI Holdings"), Pacific Century Cyberworks Limited ("PCCW") and Cyber-Port Limited (the "Developer").
- (2) FSI Holdings are private and wholly-owned companies of the Hong Kong SAR Government (the "Government").
- (3) According to the Agreement and the information provided by the Group, the surplus proceeds from the sale of the houses will be shared between and according to the respective capital contributions of the Government (approximately 64.5 per cent) and the Developer (approximately 35.5 per cent) after deducting the relevant expenses due and payable and setting up reserve funds.
- (4) According to the Agreement, the Developer shall not transfer or assign or otherwise dispose of as collateral or otherwise, the development rights or the benefit or obligations or other interest of the Developer in the Agreement to any other person without the prior consent of FSI Holdings.
- (5) In undertaking our valuation, we have made a hypothetical assumption that the development rights held by the Group in the project can be freely transferred and disposed of in the market.
- (6) The property comprises Houses No.1, 2, 3, 5, 6, 8, 9, 10, 11, 12, 15, 16, 17, 18, 19, 20, 21, 22, 23, 25, 26, 27, 28, 29, 30, 31, 32 and 33 of Villa Bel-Air.

- (7) Except for House No.33 comprising a total gross floor area of 930.23 sq m (10,013 sq ft) which is contracted to be sold at a consideration of approximately HK\$251,000,000, the remaining 27 houses are unsold.
- (8) In undertaking our valuation, we have assessed the surplus proceeds receivable by the Group from the completed development. We have allowed for the estimated government sharing of the surplus proceeds in the project, outstanding development costs including mainly construction cost, allocated overheads and related costs, sales and marketing cost and finance cost.
- (9) We are advised that the outstanding unpaid construction cost, allocated overheads and related costs of the project is estimated at approximately HK\$435,000,000 as at the valuation date.
- (10) We are advised that the surplus proceeds distributable to the Government is estimated at approximately HK\$2,519,000,000 as at the valuation date.
- (11) Our assessment of the market value of the completed development as at the valuation date taking into account the contracted sales is approximately HK\$4,525,000,000.
- (12) The property is zoned for “Other Specified Uses” under the approved Pok Fu Lam Outline Zoning Plan No. S/H10/15 dated 1 February 2005.

VALUATION CERTIFICATE

Group II — Development Rights held by the Group in project under development in Hong Kong

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 29 February 2008
2. Development Rights in Bel-Air No. 8, Bel-Air On The Peak, Pokfulam, Hong Kong Situated within Section B of Inland Lot No. 8969	<p>The property, Bel-Air No.8, is situated within Phase VI of the residential development known as Residence Bel-Air. Upon completion, the property will comprise eight 26-storey to 39-storey residential towers providing 709 residential units erected over a 4-storey podium accommodating 744 carparks on a site with a site area of approximately 24,385 sq m (262,480 sq ft).</p> <p>Upon completion, the total gross floor area of the residential units will be approximately 96,729.75 sq m (1,041,199 sq ft).</p> <p>The development is scheduled to be completed in the 4th quarter of 2008.</p> <p>Inland Lot No. 8969 is held from the Government under Conditions of Grant No. UB12572 for a term of 50 years commencing on 22 May 2000 at an annual Government rent at 3% of the rateable value for the time being of the lot.</p>	The property is under construction.	HK\$2,218,000,000

Notes:

- (1) The development rights is held by Cyber-Port Limited, in which the Group has a 100% interest, under a Project Agreement (the "Agreement") dated 17 May 2000 between Hong Kong Cyberport Development Holdings Limited, Hong Kong Cyberport Management Company Limited, Hong Kong Cyberport (Ancillary Development) Limited (together refer to as "FSI Holdings"), Pacific Century Cyberworks Limited ("PCCW") and Cyber-Port Limited (the "Developer").
- (2) FSI Holdings are private and wholly-owned companies of the Hong Kong SAR Government (the "Government").
- (3) According to the Agreement and the information provided by the Group, the surplus proceeds from the sale of the residential units and carparks will be shared between and according to the respective capital contributions of the Government (approximately 64.5 per cent) and the Developer (approximately 35.5 per cent) after deducting the relevant expenses due and payable and setting up reserve funds.
- (4) According to the Agreement, the Developer shall not transfer or assign or otherwise dispose of as collateral or otherwise, the development rights or the benefit or obligations or other interest of the Developer in the Agreement to any other person without the prior consent of FSI Holdings.

- (5) In undertaking our valuation, we have made a hypothetical assumption that the development rights held by the Group in the project can be freely transferred and disposed of in the market.
- (6) Except for 2 residential units of 848.94 sq m (9,138 sq ft) and 4 carparks, the remaining residential units and carparks are contracted to be sold at a total consideration of approximately HK\$12,020,000,000.
- (7) In undertaking our valuation, we have assessed the surplus proceeds receivable by the Group from the completed development. We have allowed for the estimated government sharing of the surplus proceeds in the project, outstanding development costs including mainly construction cost, allocated overheads and related costs, sales and marketing cost and finance cost.
- (8) We are advised that the outstanding unpaid construction cost, allocated overheads and related costs of the project is estimated at approximately HK\$2,076,000,000 as at the valuation date.
- (9) We are advised that the surplus proceeds distributable to the Government is estimated at approximately HK\$6,256,000,000 as at the valuation date.
- (10) Our assessment of the market value of the completed development as at the valuation date taking into account the contracted sales is approximately HK\$12,205,000,000.
- (11) The property is zoned for “Other Specified Uses” under the approved Pok Fu Lam Outline Zoning Plan No. S/H10/15 dated 1 February 2005.

VALUATION CERTIFICATE

Group III — Property interest held by the Group under development in Hong Kong

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 29 February 2008
3. 1 Wo Fung Street, Sheung Wan, Hong Kong	The property comprises an elongated development site with a site area of approximately 1,102.68 sq m (11,869 sq ft).	The property is under construction.	HK\$469,000,000
Subsection 1 of Section C, Subsections 2 and 3 of Section F, The Remaining Portion of Sub-section 5 of Section F and The Remaining Portion of Section F of Marine Lot No. 58	The property is proposed to be developed into a 40-storey residential tower erected over a 6-storey podium accommodating a telephone exchange and a shop. Upon completion, the total gross floor area of the property excluding the telephone exchange will be approximately 10,956.71 sq m (117,938 sq ft). Breakdown area is listed as follows:		

Gross Floor Area

	<i>sq m</i>	<i>sq ft</i>
Shop	129.97	1,399
Flats	<u>10,826.74</u>	<u>116,539</u>
	<u>10,956.71</u>	<u>117,938</u>

The development is scheduled to be completed in the 4th quarter of 2009.

Marine Lot No. 58 is held from the Government under a Government Lease for a term of 999 years commencing on 26 June 1843 at an annual Government rent of HK\$286.

Notes:

- (1) The registered owner of the property is Talent Master Investments Limited, in which the Group has a 100% interest.
- (2) By a lease dated 10 May 2004, a supplemental lease dated 26 September 2005 and a deed of variation dated 13 December 2007, portions of the Under Ground Floor, Ground Floor, Upper Ground Floor, 1st Floor, 2nd Floor and 3rd Floor of the proposed development is leased to PCCW-HKT Telephone Limited for a term expiring on 24 June 2842 at a monthly rent of HK\$105,578.
- (3) In undertaking our valuation, we have assessed the market value of the completed development. We have allowed for the estimated outstanding development costs including mainly construction and land costs, sales and marketing cost and finance cost.

- (4) We are advised that the total outstanding construction and land costs of the development as at the valuation date is approximately HK\$227,000,000.
- (5) Our assessment of the market value of the completed development as at the valuation date is approximately HK\$994,000,000.
- (6) The property is zoned for “Commercial/Residential” uses under the draft Sai Ying Pun & Sheung Wan Outline Zoning Plan No. S/H3/21 dated 17 March 2006.

VALUATION CERTIFICATE

Group IV — Property interest held by the Group for investment in the PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 29 February 2008																											
4. Unsold portion of Pacific Century Place, 2A Gong Ti Bei Lu, Chaoyang District, Beijing, PRC	<p>Pacific Century Place comprises a commercial/residential complex accommodating a 21-storey (Tower A) and an 11-storey (Tower B) office towers and a 19-storey (Tower C) and an 18-storey (Tower D) serviced apartment towers erected upon a 6-storey (including basement) shopping mall.</p> <p>The property comprises the unsold portions of the development with a total gross floor area of approximately 169,915.83 sq m (1,828,974 sq ft) and 861 car parking spaces. Breakdown area is listed as follows:</p> <table style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th colspan="2" style="text-align: center;">Gross Floor Area</th> </tr> <tr> <th></th> <th style="text-align: center;"><i>sq m</i></th> <th style="text-align: center;"><i>sq ft</i></th> </tr> </thead> <tbody> <tr> <td>Tower</td> <td></td> <td></td> </tr> <tr> <td>A</td> <td style="text-align: right;">41,717.24</td> <td style="text-align: right;">449,044</td> </tr> <tr> <td>B</td> <td style="text-align: right;">20,103.93</td> <td style="text-align: right;">216,399</td> </tr> <tr> <td>C</td> <td style="text-align: right;">21,718.24</td> <td style="text-align: right;">233,775</td> </tr> <tr> <td>D</td> <td style="text-align: right;">10,945.80</td> <td style="text-align: right;">117,821</td> </tr> <tr> <td>Shopping mall</td> <td style="text-align: right;"><u>75,430.62</u></td> <td style="text-align: right;"><u>811,935</u></td> </tr> <tr> <td>Total</td> <td style="text-align: right;"><u>169,915.83</u></td> <td style="text-align: right;"><u>1,828,974</u></td> </tr> </tbody> </table>		Gross Floor Area			<i>sq m</i>	<i>sq ft</i>	Tower			A	41,717.24	449,044	B	20,103.93	216,399	C	21,718.24	233,775	D	10,945.80	117,821	Shopping mall	<u>75,430.62</u>	<u>811,935</u>	Total	<u>169,915.83</u>	<u>1,828,974</u>	<p>About 90% of office and retail portions and 68% of serviced apartment portion were leased out and subject to various tenancies with the latest one expiring on 31 March 2013 at an aggregate monthly rental of approximately RMB17,144,900.</p>	HK\$4,103,000,000
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	<p>The land use rights of the property were granted for various terms for commercial, office, residential and car parking uses respectively with details shown as below.</p>																													

Notes:

- (1) Pursuant to State-owned Land Use Certificate Nos. Jing Chao 10086, 10131 and 10222 dated 28 January 2002, 24 December 2001 and 5 June 2003 respectively issued by State Land Resources and Housing Administration Bureau of Beijing, the land use rights of three parcels of land have been granted to Beijing Jing Wei House and Land Estate Development Co., Ltd. (“Jingwei”), in which the Group has a 100% interest. Details of the said certificates are summarized as follows:

Certificate No.	Site Area (sq.m.)	Use	Expiry Date of Land Use Term	
10131	12,672.52	Composite	Commercial:	3 January 2034
			Office:	3 January 2044
			Residential:	3 January 2064
10086	11,458.44	Composite	Commercial:	3 January 2034
			Residential:	3 January 2044
10222	3,030.52	Other	Car Park:	15 June 2048

- (2) Pursuant to Building Ownership Certificate Nos. Jing Chao 10068, 10094 and 10147 dated 21 January 2002, 2 July 2001 and 5 June 2003 respectively issued by State Land Resources and Housing Administration Bureau of Beijing, the building ownership of the property is vested in Jingwei.
- (3) We have been provided with a legal opinion on the title to the property issued by the Group’s PRC legal adviser, which contains, inter-alia, the following information:
- (i) Jingwei has obtained the State-owned Land Use Certificate of the property; and
 - (ii) Jingwei has obtained the Building Ownership Certificate of the property and is entitled to transfer, occupy, use, mortgage or lease the property save and except the sold portion.

VALUATION CERTIFICATE

Group V — Property interest held by the Group for future development in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 29 February 2008
5.	A parcel of land situated at 4 Gong Ti Bei Lu, Chaoyang District, Beijing, PRC	The property comprises a parcel of land with a site area of approximately 14,123.478 sq m (152,025 sq ft). The land use rights of the property were granted for terms of 70 years and 40 years for residential and commercial uses respectively commencing on 24 March 2006.	The property is vacant.	HK\$410,000,000

Notes:

(1) Pursuant to Contract for Grant of Land Use Rights (“Land Grant Contract”) and its Supplement dated 24 March 2006 and 10 July 2006 respectively, the land use rights of a parcel of land with a site area of 14,123.478 sq m (152,025 sq ft) have been granted to 北京啟夏房地產開發有限公司 (“啟夏”) (Beijing Qi Xia Real Estate Development Co., Ltd (“Qi Xia”)), in which the Group has a 100% interest, as follows:

(i)	Location:	4 Gong Ti Bei Lu	
(ii)	Site area:	14,123.478 sq m	
(iii)	Uses:	Residential and ancillary uses.	
(iv)	Land use term:	Residential:	70 years
		Commercial:	40 years
(v)	Construction scale:	not more than 46,300 sq m	
		(including aboveground:	40,300 sq m
		and underground:	6,000 sq m)

(2) As advised by the Group, there is an outstanding land premium and deed tax of approximately HK\$48,000,000 to be payable, which has been taken into account in our valuation.

(3) We have been provided with a legal opinion on the title to the property issued by the Group’s PRC legal adviser, which contains, inter-alia, the following information:

- (i) Qi Xia has not obtained the State-owned Land Use Certificate;
- (ii) the construction work has not been commenced; and
- (iii) Qi Xia has obtained part of the interest of the land use rights of the property. Following the execution of the terms of the Land Grant Contract, Qi Xia can obtain the State-owned Land Use Certificate and has the rights to develop the property.

VALUATION CERTIFICATE

Group VI — Property interest held by the Group for future development in Thailand

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 29 February 2008
6. A parcel of land, Thai Muang Subdistrict, Thai Muang District Phang-nga, Greater Phuket, Thailand	<p>The property comprises a parcel of land of various lots with a total site area of approximately 1,726,400 sq m (18,582,970 sq ft).</p> <p>The property is held under a lease for a term of 30 years commencing from 24 October 2007 and renewable for three further terms each of which being 30 years or such longer term as permitted by law at the time of renewal.</p>	The property is vacant	HK\$585,000,000

Notes:

1. The holder of the property is City Champion Investments Limited, in which the Group has a 100% interest.
2. The property comprises various lots in Thai Muang District including Lot Nos. 1518, 2343 to 2347, 2360, 2520, 2869, 2879, 2913 to 3101, 3106 to 3109, 6101, 6187, 7964, 9001 to 9106, 14407 to 14441 and 14593 to 14595.
3. The property is located in an area outside the government town planning zoning.

VALUATION CERTIFICATE

Group VII — Property interest held by the Group for future development in Japan

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 29 February 2008
7. A parcel of land, Grand Hirafu Hanazono Area, Niseko, Hokkaido, Japan	The property comprises a parcel of land of various lots with a total site area of approximately 1,163,857 sq m (12,527,757 sq ft) The property is held freehold.	The property is valued on vacant possession basis.	HK\$50,000,000

Notes:

1. The registered owner of the property is Nihon Harmony Resorts K.K., in which the Group has a 100% interest.
2. The property comprises various lots in Grand Hirafu Hanazono including Lot Nos. 328-1, 329, 329-2, 329-3, 330-2, 339, 339-2, 355-1, 355-2, 358, 358-2, 359, 361, 362, 369-2, 370-1, 372-2, 381-1, 328-20, 328-22, 328-27, 328-28, 328-30, 348-10, 303-2, 303-4, 303-6, 305-103, 328-2, 328-23, 328-24, 328-25, 348-1, 348-12, 357-2, 348-4, 348-5, 348-6, 348-7, 348-8, 348-13, 351-7, 351-9, 351-10, 351-11, 354-1, 354-3, 354-4, 354-5, 355-5, 355-6, 355-7, 355-8, 355-9, 355-10, 357-4, 357-5, 357-6, 357-7, 374-1, 374-4, 374-7, 374-10, 374-11, 374-14, 375-1, 378-1, 378-2, 378-5, 378-6, 380-2, 381-2, 381-5, 381-6, 390-7, 354-2, 355-3, 355-4, 357-3, 378-3, 380-3, 381-3 and 381-4.
3. The property falls within “Conservation Forest”, “Mountain Forest” and “Wild Land” under the government land categorization.

1. RESPONSIBILITY STATEMENT

This document includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Scheme and PCPD.

The information contained in this document relating to the PCPD Group (other than that relating to the PCCW Group) is supplied by PCPD. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this document (other than that relating to the PCCW Group) and confirm having made all reasonable enquiries, that to the best of their knowledge, opinions (other than those relating to the PCCW Group) expressed in this document have been arrived at after due and careful consideration and there are no other facts (other than those relating to the PCCW Group) not contained in this document, the omission of which would make any statement in this document (excluding any statement relating to the PCCW Group) misleading.

The information contained in this document relating to the PCCW Group (other than that relating to the PCPD Group and the Directors) is supplied by the Offeror. The directors of PCCW and the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in this document (other than that relating to the PCPD Group and the Directors) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document have been arrived at after due and careful consideration and there are no other facts (other than those relating to the PCPD Group and the Directors) not contained in this document, the omission of which would make any statement in this document (excluding any statement relating to the PCPD Group) misleading.

2. SHARE CAPITAL

The authorised and issued share capital of PCPD as at the Latest Practicable Date were as follows:

<i>Authorised:</i>	<i>HK\$</i>
10,000,000,000 Shares	1,000,000,000.00
 <i>Issued and fully paid up:</i>	
2,407,459,873 Shares	240,745,987.30

All of the Shares currently in issue rank *pari passu* in all respects with each other, including, in particular, as to dividends, voting rights and capital. No Shares have been issued since 31 December, 2007 (being the end of the last financial year of PCPD) up to the Latest Practicable Date.

The Shares are listed on the Stock Exchange and none of the securities of PCPD are listed or dealt in on any other stock exchange and no such listing or permission to deal is being or is proposed to be sought.

As at the Latest Practicable Date, apart from the Options and the Note there were no outstanding options, warrants, derivatives or convertible securities issued by PCPD.

As at the Latest Practicable Date, apart from the Options and the Note, there were no outstanding derivatives in respect of securities in PCPD entered into by the Offeror or any person acting in concert with it.

3. MARKET PRICES

- (a) The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the Relevant Period were HK\$2.90 per Share on 7 March, 2008 and HK\$2.16 per Share on 22 January, 2008, respectively.
- (b) The table below sets out the closing prices of the Shares on the Stock Exchange on the last business day of each of the six calendar months immediately preceding the Announcement on which trading of the Shares took place up to the Latest Practicable Date:

Dates	Closing price (HK\$)
29 February, 2008	2.84
31 January, 2008	2.18
31 December, 2007	2.57
30 November, 2007	2.59
31 October, 2007	2.64
28 September, 2007	2.43
31 August, 2007	2.27

- (c) The closing price of the Shares on the Stock Exchange on the Pre-Announcement Last Trading Day was HK\$2.26.
- (d) The closing price of the Shares on the Stock Exchange on the Latest Practicable Date was HK\$2.85.

4. DISCLOSURE OF INTERESTS

- (a) **Directors' Interests and short positions in the Shares and PCPD's associated corporations**

As at the Latest Practicable Date, the Directors and the chief executive of PCPD and their associates had the following interests and short positions in the Shares, underlying Shares and debentures of PCPD or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to PCPD and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were recorded in the register required to be kept under Section 352 of the SFO; or (c) were required to be notified to PCPD and the

Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules:

1. *PCPD*

As at the Latest Practicable Date, PCPD had not been notified of any interests or short positions in the Shares or underlying Shares or debentures of PCPD held by the Directors or the chief executive of PCPD or their associates.

2. *Associated Corporation of PCPD*

A. Interests in PCCW

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

Name of director/ chief executive	Number of ordinary shares				Number of underlying shares held under equity derivatives		% of issued Total share capital
	Personal interests	Family interests	Corporate interests	Other Interests			
Li Tzar Kai, Richard	—	—	250,109,824 <i>(Note I(a))</i>	1,650,518,335 <i>(Note I(b))</i>	—	1,900,628,159	28.04%
Alexander Anthony Arena	760,000	—	—	—	15,800,200 <i>(Note II)</i>	16,560,200	0.24%
Lee Chi Hong, Robert	992,600 <i>(Note IV(a))</i>	511 <i>(Note IV(b))</i>	—	—	6,000,000 <i>(Note III)</i>	6,993,111	0.10%
James Chan	—	—	—	—	210,000 <i>(Note III)</i>	210,000	0.003%
Gan Kim See, Wendy	—	—	—	—	420,000 <i>(Note III)</i>	420,000	0.006%

Notes:

- I. (a) Of these shares of PCCW, Pacific Century Diversified Limited (“PCD”), a wholly-owned subsidiary of Chiltonlink Limited, held 216,362,824 shares and Eisner Investments Limited held 33,747,000 shares. Li Tzar Kai, Richard owns 100% of Chiltonlink Limited and Eisner Investments Limited.
- (b) These interests represented:
- (i) a deemed interest in 36,726,857 shares of PCCW held by Yue Shun Limited, a subsidiary of Hutchison Whampoa Limited (“HWL”). Cheung Kong (Holdings) Limited (“Cheung Kong”) through certain subsidiaries held more than one-third of the issued share capital of HWL. Li Tzar Kai, Richard was a discretionary beneficiary of certain discretionary trusts which held units in unit trusts which in turn held interests in certain shares of Cheung Kong and HWL.

Li Tzar Kai, Richard was also interested in one-third of the issued share capital of two companies, which owned all the shares in the trustee companies which acted as trustees of such discretionary trusts and unit trusts. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 36,726,857 shares of PCCW held by Yue Shun Limited;

- (ii) a deemed interest in 87,018,177 shares of PCCW held by Pacific Century Group Holdings Limited (“PCGH”). Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 87,018,177 shares of PCCW held by PCGH; and
- (iii) a deemed interest in 1,526,773,301 shares of PCCW held by Pacific Century Regional Developments Limited (“PCRD”), a company in which PCGH had, through certain wholly-owned subsidiaries being Anglang Investments Limited, Pacific Century Group (Cayman Islands) Limited, Pacific Century International Limited and Borsington Limited, an aggregate of 75.33% interest. Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 1,526,773,301 shares of PCCW held by PCRD.

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

III. These interests represented the interests in underlying shares in respect of share options granted by PCCW to the directors and the chief executive of PCPD as beneficial owners as at the Latest Practicable Date, details of which are set out as follows (all dates are shown month/day/year):

Name of director/ chief executive	Date of grant	Vesting period	Exercisable period	Exercise price HK\$	Number of options outstanding as at the Latest Practicable Date
Alexander Anthony Arena	08.28.1999	08.17.2000 to 08.17.2004	08.17.2000 to 08.17.2009	11.780	3,200,000
	08.26.2000	08.26.2001 to 08.26.2005	08.26.2001 to 08.26.2010	60.120	1,600,000
	02.20.2001	08.26.2001 to 08.26.2005	08.26.2001 to 01.22.2011	16.840	1,600,000
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.350	6,400,000
	02.08.2005	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.475	3,000,000
Lee Chi Hong, Robert	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.350	5,000,000
	02.08.2005	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.475	1,000,000
James Chan	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.350	210,000

Name of director/ chief executive	Date of grant	Vesting period	Exercisable period	Exercise price HK\$	Number of options outstanding as at the Latest Practicable Date
Gan Kim See, Wendy	01.22.2001	01.22.2002 to 01.22.2004	01.22.2002 to 01.22.2011	16.840	180,000
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.350	240,000

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

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

B. Short positions in the shares and underlying shares of PCCW

As at the Latest Practicable Date, PCPD had not been notified of any short positions in the shares or underlying shares or debentures of PCCW held by the Directors or the chief executive of PCPD or their Associates.

(b) Interests and short positions of substantial shareholders and other persons required to be disclosed under the SFO

1. Interests in PCPD

As at the Latest Practicable Date, the following persons (other than the Directors or the chief executive of PCPD) had interests in the Shares and underlying Shares as recorded in the register required to be kept under Section 336 of the SFO:

Name of shareholder	Capacity	Number of Shares/ underlying Shares held	% of issued share capital
PCCW	Beneficial owner	2,153,555,555 <i>(Note I)</i>	89.45%
Elliott Capital Advisors, L.P.	Interest of controlled corporations	340,919,680 <i>(Note II)</i>	14.16%
Peter Cundill & Associates (Bermuda) Ltd.	Investment manager	124,952,000	5.19%
Daniel Saul Och	Interest of controlled corporations	121,447,152 <i>(Note III)</i>	5.04%

Name of shareholder	Capacity	Number of Shares/ underlying Shares held	% of issued share capital
Och-Ziff Capital Management Group LLC	Interest of controlled corporations	121,447,152 (Note III)	5.04%
OZ Management, L.P. (formerly known as OZ Management, L.L.C.)	Investment manager	121,447,152 (Note III)	5.04%

Notes:

- I. These interests represented (a) an interest in 1,481,333,333 Shares held by Asian Motion; and (b) an interest in respect of 672,222,222 underlying Shares held by PCCW-HKT Partners Limited, a wholly-owned subsidiary of PCCW, arising as a result of the holding of the HK\$2,420 million guaranteed convertible note issued by PCPD Wealth Limited, a wholly-owned subsidiary of PCPD, on December 29, 2006.
- II. Elliott Capital Advisors, L.P. has direct or indirect control over The Liverpool Limited Partnership and Elliott International, L.P. and is therefore deemed to be interested in the 136,367,872 Shares held by The Liverpool Limited Partnership and 204,551,808 Shares held by Elliott International L.P.
- III. Each of Daniel Saul Och, Och-Ziff Capital Management Group LLC and Och-Ziff Holding Corporation has direct or indirect control over an investment manager OZ Management, L.P. and is therefore deemed to be interested in the 121,447,152 Shares held in aggregate by OZ Management, L.P. and its wholly-owned subsidiaries and other entities controlled by it.

2. *Short positions in the Shares and underlying Shares*

As at the Latest Practicable Date, PCPD had not been notified of any person who had short positions in the Shares and underlying Shares to be recorded in the register required to be kept by PCPD pursuant to Section 336 of the SFO.

(c) **Other Interests**

As at the Latest Practicable Date, save as disclosed in this document:

- (1) neither PCPD nor any of its subsidiaries had any interests in the shares, convertible securities, warrants, options or derivatives of PCCW or of the Offeror;
- (2) no subsidiary of PCPD, nor any pension fund of PCPD or any of its subsidiaries had any interests in any Shares, convertible securities, warrants, options or derivatives of PCPD;
- (3) none of the advisers to PCPD as specified in class (2) of the definition of associate under the Takeovers Code (excluding exempt principal traders) had any interest in any Shares, convertible securities, warrants, options or derivatives of PCPD;

- (4) no person that had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with PCPD or with any person who is an associate of PCPD by virtue of classes (1), (2), (3) or (4) of the definition of associate under the Takeovers Code or with PCCW, the Offeror or any person acting in concert with any of them had any interests in any Shares, convertible securities, warrants, options or derivatives of PCPD;
- (5) no Shares, convertible securities, warrants, options or derivatives of PCPD were managed on a discretionary basis by fund managers (other than exempt fund managers) connected with PCPD;
- (6) no director of the Offeror had any interests in any Shares, convertible securities, warrants, options or derivatives of PCPD; and
- (7) no person has irrevocably committed to vote either in favour of or against the Scheme at the Court Meeting.

5. DEALING IN SHARES

- (a) None of PCCW, the Offeror nor parties acting in concert with any of them under the Takeovers Code have dealt for value in the Shares during the Relevant Period.
- (b) None of PCPD nor any subsidiary of PCPD, nor any pension fund of PCPD or any of its subsidiaries have dealt for value in the Shares during the Relevant Period.
- (c) No advisers to PCPD as specified in class (2) of the definition of associate under the Takeovers Code (excluding exempt principal traders) have dealt for value in the Shares during the Relevant Period.
- (d) No person that had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with PCPD or with any person who is an Associate of PCPD by virtue of classes (1), (2), (3) or (4) of the definition of associate under the Takeovers Code or with PCCW or any person acting in concert with it has dealt for value in the Shares during the Relevant Period.
- (e) No fund managers (other than exempt fund managers) who managed funds on a discretionary basis for PCPD or who were connected with PCPD have dealt for value in the Shares during the Relevant Period.
- (f) No director of the Offeror nor of PCPD has dealt for value in the Shares during the Relevant Period.
- (g) No Director has dealt for value in the shares of PCCW or the Offeror during the Relevant Period.

6. LITIGATION

None of the members of the PCPD Group are engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the PCPD Group.

7. MATERIAL CONTRACTS

None of the members of the PCPD Group have entered into any material contract, not being contracts entered into in the ordinary course of business carried on or intended to be carried on by any member of the PCPD Group, after the date two years preceding the date of the Announcement.

8. EXPERTS

The following are the qualifications of each of the experts who have been named in this document or given their opinion or advice which are contained in this document:

Name	Qualification
Citigroup Global Markets Asia Limited	A licensed corporation under the SFO, licensed to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) of the regulated activities.
N M Rothschild & Sons (Hong Kong) Limited	A corporation licensed by the SFC to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) of the regulated activities under the SFO.
Savills Valuation and Professional Services Limited	Property valuer

9. CONSENT

Citigroup, Savills and Rothschild have given and have not withdrawn their respective written consents to the issue of this document with the inclusion in this document of the text of their respective letters and references to their names in the form and context in which they are included.

10. COSTS OF THE SCHEME

In the event that the Scheme becomes effective, the costs of the Scheme will be borne by PCPD. The costs of the Scheme and of its implementation are expected to amount to approximately HK\$13 million. These primarily consist of fees for financial advisers, legal advisers, accounting, printing and other related charges.

In the event that the Scheme (i) is not recommended by the Independent Board Committee or is not recommended as fair and reasonable by the independent financial adviser to the Independent Board Committee and is not approved at the relevant Shareholders' meeting(s) or (ii) does not become unconditional, all the expenses incurred by PCPD in connection with the Scheme shall be borne by the Offeror.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection from 9:30 a.m. to 5:30 p.m., Monday to Friday at (i) the office of Richards Butler in association with Reeds Smith *LLP*, legal advisor to the Offeror, at 20th Floor, Alexandra House, 16-20 Chater Road, Central, Hong Kong; (ii) the website of PCPD at <http://www.pcpd.com>; and (iii) the website of SFC at <http://www.sfc.hk> from the date of this document until the Effective Date or the date on which the Scheme lapses, whichever is earliest:

- (a) the memorandum and articles of association of the Offeror;
- (b) the memorandum and articles of association of PCCW;
- (c) the memorandum of association and bye-laws of PCPD;
- (d) the annual reports of PCPD for the two years ended 31 December, 2005 and 31 December, 2006;
- (e) the interim report of PCPD for the six months ended 30 June, 2007;
- (f) the audited financial results of PCPD for the year ended 31 December, 2007;
- (g) the letter from the Board, the text of which is set out on pages 9 to 17 of this document;
- (h) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 18 to 19 of this document;
- (i) the letter of advice from Rothschild, the text of which is set out on pages 20 to 45 of this document;
- (j) the letters and summaries of valuation from Savills, the texts of which are set out in Appendix II to this document; and
- (k) the written consents referred to in the paragraph headed "Consent" in Appendix III to this document.

12. MISCELLANEOUS

- (a) None of the existing Directors will be given any benefit as compensation for loss of office or otherwise in connection with the Scheme.
- (b) There is no agreement or arrangement between any of the Directors and any other person which is conditional on or dependent upon the outcome of the Scheme or otherwise connected with the Scheme.

- (c) There is no agreement or arrangement or understanding (including any compensation arrangement) between the Offeror or any person acting in concert with it (on the one part) and any of the Directors, recent Directors, Shareholders or recent Shareholders of PCPD (on the other part) having any connection with or dependence upon the Scheme.
- (d) The registered office of the Offeror is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.
- (e) The Offeror does not have any intention to transfer, charge or pledge any Shares acquired pursuant to the Scheme to any other person.
- (f) PCCW is the ultimate holding company of the Offeror. PCCW is a company which was incorporated in Hong Kong on 24 April, 1979 with limited liability, the shares of which are listed on the Stock Exchange (SEHK: 0008) and with securities in the form of American depositary receipts, each representing 10 ordinary shares of PCCW, traded on the Pink Sheets in the US (Ticker: PCCWY). The registered office of PCCW is at 39th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong. The directors of PCCW are:

Executive Directors:

Li Tzar Kai, Richard (*Chairman*)
Alexander Anthony Arena (*Group Managing Director*)
Peter Anthony Allen
Chung Cho Yee, Mico
Lee Chi Hong, Robert

Non-Executive Directors:

Sir David Ford, *KBE, LVO*
Zhang Chunjiang
Zuo Xunsheng (*Deputy Chairman*)
Li Fushen

Independent Non-Executive Directors:

Prof. Chang Hsin-kang
Dr. The Hon Sir Li Kwok Po, David, *GBM, GBS, OBE, JP*
Sir Roger Lobo, *CBE, LLD, JP*
Aman Mehta
The Hon Raymond George Hardenbergh Seitz

- (g) The Secretary of PCPD is Chan Ya Lai, Alice who is a solicitor qualified in Hong Kong and England and Wales and a member of The Hong Kong Institute of Chartered Secretaries.

- (h) The Qualified Accountant of PCPD is Yeung Tat Man who is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.
- (i) The registered office of PCPD is situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (j) The principal place of business of PCPD is situated at Units 701-705, Level 7, Cyberport 3, 100 Cyberport Road, Hong Kong.
- (k) The principal share registrar and transfer agent of PCPD is Butterfield Fund Services (Bermuda) Limited, which is situated at Rosebank Centre, 11 Bermudiana Road, Pembroke HM 08, Bermuda.
- (l) The Hong Kong branch share registrar of PCPD is Computershare Hong Kong Investor Services Limited, which is situated at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (m) The principal place of business of Citigroup is situated at 50th Floor, Citibank Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong.
- (n) The principal place of business of Rothschild is situated at 16th Floor, Alexandra House, 18 Chater Road, Central, Hong Kong.
- (o) As at the Latest Practicable Date, there was no material contract entered into by the Offeror in which any of the Directors had a material personal interest.
- (p) As at the Latest Practicable Date, there is no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between the Offeror, any parties acting in concert with the Offeror, or any associate of the Offeror, and any other person.
- (q) As at the Latest Practicable Date, none of the Directors has entered into any service contract with PCPD or any of its subsidiaries or associated companies for a fixed term contract with more than 12 months to run irrespective of notice period, or which has been entered into or amended within six months before the commencement of the Offer Period or which are continuous contracts with a notice period of 12 months or more.
- (r) There are no other arrangements or agreements to which the Offeror is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a condition to the Offer, save for the Conditions, and the circumstances in which the Conditions can be waived, set out on pages 48 to 49 in the Explanatory Statement.
- (s) The English language text of this document shall prevail over the Chinese language text.

SCHEME OF ARRANGEMENT

IN THE SUPREME COURT OF BERMUDA
CIVIL JURISDICTION
2008: NO.60

IN THE MATTER OF
PACIFIC CENTURY PREMIUM DEVELOPMENTS LIMITED
AND
IN THE MATTER OF SECTION 99 OF
THE COMPANIES ACT 1981 OF BERMUDA

SCHEME OF ARRANGEMENT

BETWEEN
PACIFIC CENTURY PREMIUM DEVELOPMENTS LIMITED
AND
THE HOLDERS OF THE SCHEME SHARES (AS HEREINAFTER DEFINED)

PRELIMINARY

(A) In this Scheme of Arrangement, unless inconsistent with the subject or context, the following expressions shall have the following meanings:

“2003 Share Option Scheme”	the share option scheme of PCPD adopted on 17 March, 2003, the termination of which was approved by PCPD’s shareholders at PCPD’s annual general meeting held on 13 May, 2005
“2005 Share Option Scheme”	the share option scheme of PCPD which became effective on 23 May, 2005
“acting in concert”	shall have the meaning given to it in the Takeovers Code
“Asian Motion”	Asian Motion Limited, a company incorporated in the British Virgin Islands with limited liability, a wholly-owned subsidiary of PCCW and which is beneficially interested in 1,481,333,333 Shares, representing approximately 61.53% of the issued share capital of PCPD as at the Latest Practicable Date
“Companies Act”	the Companies Act 1981 of Bermuda (as amended)
“connected person”	shall have the meaning given to it in the Listing Rules

SCHEME OF ARRANGEMENT

“Court”	the Supreme Court of Bermuda
“Effective Date”	the date on which this Scheme becomes effective as contemplated by clause 1 of this Scheme
“Explanatory Statement”	the statement sent to the holders of the Shares in accordance with Section 100 of the Companies Act
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“holder”	a registered holder of Shares including a person entitled by transmission to be registered as such
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Latest Practicable Date”	19 March, 2008
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Offeror”	Picville Investments Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of PCCW
“Offer Price”	a price of HK\$2.85 per Scheme Share payable to the Scheme Shareholders under the Scheme
“Optionholder(s)”	holder(s) of Options granted under the Share Option Schemes
“Options”	options granted to Optionholders under the Share Option Schemes which remain unexercised
“PCCW”	PCCW Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange and with securities in the form of American depositary receipts, each representing 10 ordinary shares of PCCW, traded on the Pink Sheets in the United States of America
“PCPD”	Pacific Century Premium Developments Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange
“Pink Sheets”	a daily listing of bid and ask prices for over-the-counter stocks, published by the National Quotation Bureau
“Proposal”	the proposal for the privatisation of PCPD by the Offeror by way of the Scheme

SCHEME OF ARRANGEMENT

- | | |
|------------------------|---|
| “Record Date” | the business day (being any day on which banks are open for business in Hong Kong, other than Saturday) in Hong Kong immediately preceding the Effective Date |
| “Record Time” | 4:30 p.m. Hong Kong time on the Record Date |
| “Scheme” | this scheme of arrangement in its present form or with or subject to any modification thereof or addition thereto or condition approved or imposed by the Court |
| “Scheme Shares” | Share(s) held by the Scheme Shareholder(s) on the Record Date |
| “Scheme Shareholders” | Shareholders other than Asian Motion, the Offeror and PCCW |
| “Share(s)” | share(s) of HK\$0.10 each in the share capital of PCPD |
| “Shareholder(s)” | holder(s) of the Shares |
| “Share Option Schemes” | the 2003 Share Option Scheme and the 2005 Share Option Scheme |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Takeovers Code” | The Hong Kong Code on Takeovers and Mergers |
- (B) The authorised share capital of PCPD is HK\$1,000,000,000 divided into 10,000,000,000 Shares of HK\$0.10 each, of which 2,407,459,873 Shares have been issued and fully paid.
- (C) The primary purpose of this Scheme is that on the Effective Date all the Scheme Shares should be cancelled and that the credit arising from PCPD’s books of accounts as a result of the aforesaid reduction of capital be applied to pay up in full and issue to the Offeror such number of new Shares being equal to the Scheme Shares cancelled.
- (D) As at the Latest Practicable Date, the Offeror and parties acting in concert with it are interested in 1,481,333,333 Shares, constituting approximately 61.53% of the issued share capital of PCPD.
- (E) As at the Latest Practicable Date, Options relating to 5,000,000 Shares are currently outstanding and exercisable under the Share Option Schemes, with an exercise price of HK\$2.375 per Share. The Options are held by Mr. Chung Cho Yee, Mico, a director of PCCW and of a subsidiary of PCPD. Mr. Chung is therefore a connected person of PCCW and PCPD. Mr. Chung has undertaken to the Offeror and PCPD not to exercise any of the Options prior to the Proposal either becoming effective or lapsing and, accordingly, will not be eligible to vote on the Proposal as an Independent Shareholder at the Court Meeting. Conditional upon the Proposal becoming effective and the Optionholder accepting the offer for the cancellation of the Options, the Options will be cancelled. The amount payable by the Offeror under the offer to cancel an Option will be calculated by deducting the exercise price per Share payable on exercise of an Option from the Offer Price per Share payable under the Scheme. A letter from the Offeror to Mr. Chung setting out the terms of that offer will be despatched to him on the same day as the despatch of the document containing the Scheme.

SCHEME OF ARRANGEMENT

- (F) The Offeror and Asian Motion and the respective concert parties have agreed to appear by counsel on the hearing of the petition to sanction this Scheme and to undertake to the Court to be bound thereby and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed or done by it for the purpose of giving effect to the Scheme.

THE SCHEME

PART I

Cancellation of the Scheme Shares

1. Upon the Effective Date:
 - (a) the issued share capital of PCPD shall be reduced by cancelling and extinguishing the Scheme Shares;
 - (b) subject to and forthwith upon the reduction of capital referred to in paragraph (a) above taking effect, the entire issued share capital of PCPD shall be increased to its former amount by the creation of such number of new Shares as is equal to the number of the Scheme Shares; and
 - (c) PCPD shall apply the credit of HK\$92,612,654 which will arise in its books of account as a result of the said reduction of capital in paying up in full at par the 926,126,540 new Shares which shall be allotted and issued, credited as fully paid, to the Offeror.

PART II

Consideration for cancellation of the Scheme Shares

2. In consideration of the cancellation and extinguishment of the Scheme Shares, the Offeror shall pay or cause to be paid to the holders of the Scheme Shares (as appearing in the register of members of PCPD at 4:30 p.m. on the Record Date) the sum of HK\$2.85 in cash for each Scheme Share held.

PART III

General

3. (a) Not later than ten days after the Effective Date, the Offeror shall send or procure to be sent to the holders of the Scheme Shares (as appearing in the register of members of PCPD at 4:30 p.m. on the Record Date) cheques in respect of the sums payable to such holders pursuant to clause 2 of this Scheme.

SCHEME OF ARRANGEMENT

- (b) Unless indicated otherwise in writing to Computershare Hong Kong Investor Services Limited, the branch share registrar of PCPD, at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, all such cheques shall be sent through the ordinary post in pre-paid envelopes addressed to the persons entitled thereto:
- (i) in the case of sole holders, to the respective registered addresses of such holders as appearing in the register of members of PCPD at 4:30 p.m. on the Record Date; and
 - (ii) in the case of joint holders, to the registered address of that one of the joint holders whose name then stands first in such register of members of PCPD in respect of the joint holding.
- (c) Cheques shall be posted at the risk of the addressees and once posted, none of PCCW, the Offeror or PCPD or any of them shall be responsible for any loss or delay in the transmission of such cheques.
- (d) Such cheques shall be payable to the order of the person to whom, in accordance with the provisions of paragraph (b) of this clause 3, the envelope containing the same is addressed and the encashment of any such cheque shall be a good discharge to the Offeror for the monies represented thereby.
- (e) On or after the day being six calendar months after the posting of the said cheques pursuant to paragraph (b) of this clause 3, the Offeror shall have the right to cancel or cause the cancellation of any such cheques which has not then been encashed or has been returned uncashed and shall place all monies represented thereby in a deposit account in PCPD's name with a licensed bank in Hong Kong selected by PCPD. PCPD shall hold such monies until the expiration of six years from the Effective Date and shall, prior to such date, make payments therefrom of the sums payable pursuant to clause 2 of this Scheme to persons who satisfy PCPD that they are respectively entitled thereto and provided that the cheques referred to in paragraph (b) of this clause 3 of this Scheme of which they are payees have not been cashed. Any payments made by PCPD hereunder shall include any interest accrued on the sums to which the respective persons are entitled pursuant to clause 2 of this Scheme, calculated at the annual rate prevailing from time to time at the licensed bank with which the monies are deposited, from the date which falls six months after the posting of the said cheques pursuant to paragraph (b) of this clause 3 down to the date of payment of such sum, subject, if applicable, to deduction of interest or any other deduction or withholding tax required by law. PCPD shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled and a certificate of PCPD to the effect that any particular person is so entitled or is not so entitled shall be conclusive and binding upon all persons claiming an interest in the relevant monies. Upon the expiry of six years from the Effective Date, the Offeror shall be released from any further obligation to make any payment under this Scheme and PCPD shall thereafter transfer to the Offeror the balance (if any) of the sums standing to the credit of the deposit account referred to in this paragraph (e) of this clause 3 including accrued interest subject, if applicable, to the deduction of interest or any withholding or any other tax or any other deduction required by law and subject to the deduction of any expenses.

SCHEME OF ARRANGEMENT

4. As from and including the Effective Date, all certificates representing the Scheme Shares shall cease to have effect as documents or evidence of title to the Shares comprised therein and every holder thereof shall be bound, on the request of PCPD, to deliver up to PCPD or to any person appointed by it to receive the same such certificate(s) for cancellation.
5. All mandates or relevant instructions in force at the Record Time relating to any of the Scheme Shares shall cease to be valid and effective mandates or instructions.
6. This Scheme shall become effective upon all the conditions set out in the paragraph headed “Conditions of the Proposal” in the Explanatory Statement being fulfilled and/or otherwise waived (as the case may be).
7. Unless this Scheme shall have become effective on or before 31 August, 2008 or such later date, if any, as the Offeror and PCPD may agree and the Court may allow, this Scheme shall lapse.
8. The Offeror and PCPD, by their duly authorised agent(s)/servant(s), may jointly consent for and on behalf of all parties concerned to any modification of or addition to this Scheme or to any condition which the Court may see fit to approve or impose without any further Court Meeting to be held therefor.

Dated 25 March, 2008

NOTICE OF COURT MEETING

**IN THE SUPREME COURT OF BERMUDA
CIVIL JURISDICTION
2008: NO. 60**

**IN THE MATTER OF
PACIFIC CENTURY PREMIUM DEVELOPMENTS LIMITED
AND
IN THE MATTER OF SECTION 99 OF
THE COMPANIES ACT 1981 OF BERMUDA**

NOTICE OF COURT MEETING

NOTICE IS HEREBY GIVEN that, by an order dated 20 March, 2008 (the “Order”) made in the above matters, the Supreme Court of Bermuda (the “Court”) has directed a meeting (the “Meeting”) to be convened of the holders of the Scheme Shares (as defined in the scheme of arrangement hereinafter mentioned) for the purpose of considering and, if thought fit, approving, with or without modification, a scheme of arrangement proposed to be made between PCPD and the holders of the Scheme Shares (the “Scheme”), and that the Meeting will be held in the Conference Room, 14th Floor, PCCW Tower, TaiKoo Place, 979 King’s Road, Quarry Bay, Hong Kong on 17 April, 2008, at 10:00 a.m. at which place and time all holders of the Scheme Shares are requested to attend.

A copy of the Scheme and a copy of an explanatory statement (the “Explanatory Statement”) explaining the effect of the Scheme, required to be furnished pursuant to Section 100 of the above mentioned Act, are incorporated in the document of which this Notice forms part.

The above-mentioned holders of the Scheme Shares may vote in person at the Meeting or they may appoint one or more proxies (who must be an individual), whether a member of PCPD or not, to attend and vote in their stead. A pink form of proxy for use at the Meeting is enclosed herewith.

In the case of joint holders, the vote of the most senior holder who tenders a vote, whether personally or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s), and, for this purpose, seniority will be determined by the order in which the names of the joint holders stand in the register of members of PCPD in respect of the relevant joint holding.

It is requested that forms appointing proxies be lodged, by hand or by post, with Computershare Hong Kong Investor Services Limited, the branch share registrar of PCPD, at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong or by facsimile at (852) 2989 6268 (marked for the attention of “the Company Secretary”) not less than forty-eight (48) hours before the time appointed for the Meeting, but if forms are not so lodged they may be handed to the chairman of the Meeting at the Meeting.

NOTICE OF COURT MEETING

By the Order, the Court has appointed Mr. Lee Chi Hong, Robert, a director of PCPD or, failing him, Mr. Lam Yu Yee, also a director of PCPD, or, failing him, any other person who is a director of PCPD as at the date of the Order to act as the chairman of the Meeting and has directed the chairman of the Meeting to report the outcome thereof to the Court.

The Scheme will be subject to the subsequent approval of the Court as set out in the Explanatory Statement contained in the document of which this Notice forms part.

Dated 25 March, 2008

CONYERS DILL & PEARMAN
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda
Attorneys-at-Law for
Pacific Century Premium Developments Limited

NOTICE OF SGM



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: 0432)

NOTICE IS HEREBY GIVEN that a special general meeting of Pacific Century Premium Developments Limited (“PCPD”) will be held in the Conference Room, 14th Floor, PCCW Tower, TaiKoo Place, 979 King’s Road, Quarry Bay, Hong Kong on 17 April, 2008, at 10:30 a.m. (or as soon thereafter as the Court Meeting (as defined in the scheme of arrangement hereinafter mentioned) convened for the same day and place shall have been concluded or adjourned), for the purpose of considering and, if thought fit, passing the following resolution as a special resolution:

SPECIAL RESOLUTION

“THAT:

- (A) the proposed scheme of arrangement (the “Scheme”) between PCPD and the holders of the Scheme Shares (as defined in the Scheme) in the form of the print thereof, which has been produced to this meeting and for the purposes of identification, signed by the chairman of this meeting or in such other form and on such terms and conditions as may be approved by the Supreme Court of Bermuda, be and is hereby approved;
- (B) for the purposes of giving effect to the Scheme, on the Effective Date (as defined in the Scheme):
 - (i) the issued share capital of PCPD shall be reduced by cancelling and extinguishing the Scheme Shares;
 - (ii) subject to and forthwith upon the said reduction of share capital taking effect, the issued share capital of PCPD shall be increased to its former amount by the creation of such number of new Shares (as defined in the Scheme) as is equal to the number of Scheme Shares cancelled;
 - (iii) PCPD shall apply the credit arising in its books of account as a result of the said reduction of capital in paying up in full at par such number of new Shares being equal to the number of the Scheme Shares cancelled, which shall be allotted and issued, credited as fully paid, to Picville Investments Limited;
- (C) subject to the Scheme taking effect, the directors of PCPD be and are hereby authorised to make application to The Stock Exchange of Hong Kong Limited (hereinafter called the “Stock Exchange”) for the withdrawal of the listing of PCPD’s shares on the Stock Exchange; and

* *For identification only*

NOTICE OF SGM

(D) the directors of PCPD be and are hereby authorised to do all other acts and things as considered by them to be necessary or desirable in connection with the implementation of the Scheme, including (without limitation) the giving of consent to any modifications of, or additions to, the Scheme, which the Supreme Court of Bermuda may see fit to impose and to do all other acts and things as considered by them to be necessary or desirable in connection with the implementation of the Scheme and in relation to the Proposal (as defined in the document of which the notice of this resolution forms part) as a whole.”

By Order of the Board
Chan Ya Lai, Alice
Company Secretary

Hong Kong, 25 March, 2008

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:

1. A white form of proxy for use at this meeting is enclosed herewith.
2. A member of PCPD entitled to attend and vote at this meeting is entitled to appoint one or more proxies (who must be an individual) to attend and vote instead of him/her. A proxy need not be a member of PCPD.
3. In order to be valid, the white form of proxy together with any power of attorney or other authority (if any) under which it is signed, or notarially certified copy of such power of attorney, must be deposited with Computershare Hong Kong Investor Services Limited, the branch share registrar of PCPD, at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, not less than forty-eight (48) hours before the time appointed for holding this meeting or any adjournment thereof.
4. Completion and return of the form of proxy shall not preclude a member from attending and voting in person at this meeting and, in such event, the form of proxy shall be deemed to be revoked.
5. Where there are joint holders of any share in PCPD, any one of such joint holders may vote at this meeting, either personally or by proxy, in respect of such share as if he/she were solely entitled thereto; but if more than one of such joint holders are present at this meeting personally or by proxy, the most senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register of members of PCPD in respect of the relevant joint holding.