ANNUAL REPORT 2010 | Stock Code: 0008

WE CARE

WE LISTEN

WE ACT

CONTENTS

CORPORATE PROFILE

PCCW Limited (PCCW or the Company) is the holding company of HKT Group Holdings Limited (HKT), Hong Kong's premier telecommunications provider and a world-class player in Information and Communications Technologies. PCCW also holds a majority interest in Pacific Century Premium Developments Limited, and overseas investments including the wholly-owned UK Broadband Limited.

As the provider of Hong Kong's first quadruple-play experience, PCCW/HKT offers a range of innovative media content and services across four platforms – fixed-line, broadband Internet access, TV and mobile. In addition, the Group meets the sophisticated needs of the local and international business community, while supporting network operators with cutting-edge technical services and handling large-scale IT outsourcing projects for public and private sector organizations.

Employing approximately 19,300 staff, PCCW is headquartered in Hong Kong and maintains a presence in Europe, the Middle East, Africa, the Americas and mainland China, as well as other parts of Asia.

PCCW shares are listed on The Stock Exchange of Hong Kong Limited (SEHK: 0008) and traded in the form of American Depositary Receipts (ADRs) on the OTC Markets Group Inc. in the U.S. (Ticker: PCCWY).

SIGNIFICANT EVENTS IN 2010

JANUARY

PCCW mobile launches Hong Kong's first U smartphone based on the Android operating system, and a mobile data price-cap scheme.

MARCH

PCCW announces that profit attributable to equity holders of the Company for the year ended December 31, 2009 amounted to HK$1,506 million. A final dividend of 13.3 HK cents per share is declared.

APRIL

now TV acquires exclusive Hong Kong media rights to French Ligue 1 for two seasons.

MAY

PCCW Solutions launches comprehensive cloud computing services for enterprises in Hong Kong and mainland China.

Hong Kong Telecommunications (HKT) Limited obtains a HK$16 billion term loan and revolving credit facility.

MOOV is launched on now TV as a concert-music TV channel, hence becoming available on all PCCW quadruple-play platforms.

PCCW Group Chief Financial Officer, Ms. Susanna Hui, is appointed an Executive Director. Mr. Mico Chung is re-designated from an Executive Director to a Non-Executive Director.

JULY

PCCW forms partnership with Manchester United Football Club to bring exclusive MUTV contents to Hong Kong.

Visitors to Hong Kong are offered free PCCW Wi-Fi service to access useful tourist information provided by the Hong Kong Tourism Board.

AUGUST

PCCW Global enhances its Dual Stack solution to help customers transition from IPv4 to IPv6 standard following the expansion of its IPv6 capabilities.

PCCW announces the readiness of its 42M HSPA+fiber mobile broadband network.

PCCW announces that profit attributable to equity holders of the Company for the six months to June 30, 2010 amounted to HK$765 million. An interim dividend of 5.10 HK cents per share is declared.

The Group issues US$500 million guaranteed notes due 2016.

A total of 500 million new PCCW shares are placed with institutional investors, raising about US$166 million.

SEPTEMBER

now TV secures the exclusive PGA TOUR broadcast rights in Hong Kong.

OCTOBER

PCCW announces a series of measures to further raise customer service standards with a view to enhancing customer experience.

NBA games can be watched live on now TV following a partnership with the National Basketball Association. now TV will become the exclusive pay-TV broadcaster in Hong Kong from the 2011/12 season.

DECEMBER

PCCW volunteers are again recognized in the Social Welfare Department's annual highest service hour awards.

AWARDS

Award	Awardee	Scheme organizer
Annual Quality Service Award 2010		MTR Corporation Limited
Electrical Appliances and Telecommunications	PCCW Shops	
AV Awards 2010		AV Magazine
The Best Internet Service Provider	NETVIGATOR	
The Best Mobile Broadband Operator	NETVIGATOR Everywhere and PCCW mobile	
Best of I.T. Award 2010		PC Market
My Favourite Local Broadband Service Provider Award	NETVIGATOR	
The Best of The Best Awards		Hi-Tech Weekly
HD Set-Top Box	now TV's HD set-top box	
Mobile Internet Service Provider	NETVIGATOR Everywhere	
Internet Service Provider	NETVIGATOR	
Mobile Telecom Service Provider	PCCW mobile	
China Industry Information Technology Award 2010		China Information World
Best IT Outsourcing Enterprise Award	PCCW Solutions	
10th CAPITAL Outstanding Enterprises Awards		CAPITAL
The Best Business Broadband Services Provider	Commercial Group	
China Top 25 ITO Service Company Award		China Software Industry Association
Top 2 in China Top 25 ITO Service Company	PCCW Solutions	
Computerworld HK Awards 2010		Computerworld Hong Kong
Best Data and Telecoms Services Provider	Commercial Group	
Best Corporate Mobile Services Provider	Commercial Group	
Best Managed Security Services	Commercial Group	
Best IT Hosting and Outsourcing Services Provider	PCCW Solutions	
42nd Distinguished Salesperson Awards		Hong Kong Management Association and The Sales and Marketing Executives Club of Hong Kong
Distinguished Salesperson Award	Four Commercial Group and A&IS staff members	
Outstanding Young Salesperson Award	Three Commercial Group and A&IS staff members	
eBrands Awards 2010		eZone
Mobile Broadband	PCCW mobile	
The Best of Residential Broadband Service	NETVIGATOR	
Focus Media HK White Collar's Most Favorite Brand Awards 2010		Focus Media Hong Kong
Most Favorite Mobile Operator Award	PCCW mobile	
Hi-Tech King Awards 2010		Hi-Tech Weekly
The Best Internet Service Provider	NETVIGATOR	
The Best of Mobile Broadband Service	NETVIGATOR Everywhere	
Hong Kong Call Centre Association Awards 2010		Hong Kong Call Centre Association
Off-shore Contact Centre of the Year-Gold Award	PCCW Teleservices	
Hong Kong RFID Awards		GS1 Hong Kong
Certificate of Merit	PCCW Solutions	

Award	Awardee	Scheme organizer
Hong Kong Services Awards 2010		East Week
Prosperous Economy category		
Internet Service	NETVIGATOR	
Long Distance Call	IDD 0060	
Indie Fest Award		The Indie
Documentary Program/Series – Award of Merit	now TV	
IT Service Award of Communications Industry		Communications Weekly China
Best ERP Service Provider	PCCW Solutions	
Leading International IT Outsourcing Enterprise Award, 2010		CEOCIO China
	PCCW Solutions	
MIS Strategic 100, 2010		MIS Asia
Top 20 Regional IT Companies	PCCW Solutions	
Mystery Shopper Programme 2010 – Periodic Award (2nd Quarter)		Hong Kong Retail Management Association
Service Category Leader of Telecommunications	PCCW Shops	
Sing Tao Excellent Services Brand Award 2010		Sing Tao Daily
Internet Service Provider	NETVIGATOR	
SMB World Awards 2010		SMB World
Best Business Broadband Service Provider of the Year	Commercial Group	
Best Corporate Mobile Service Provider of the Year	Commercial Group	
Top Outsourcer Ranking Awards 2010		ContactCenterWorld.com
Inbound Outsourcer	PCCW Teleservices	
Outbound Outsourcer	PCCW Teleservices	
Top Service Awards		Next Magazine
Best Internet Service Provider for 12 Consecutive Years (1999-2010)	NETVIGATOR	
Mobile Operator	PCCW mobile	
TOUCH Brands 2010		East Touch
	PCCW mobile and NETVIGATOR Everywhere	
Trusted Brands 2010 Award		Reader's Digest
Telecommunications category – Gold Award	PCCW	
Vibrant Star of Retail and Service Industry 2010		Job Finder
Vibrant Star Merit Award	One PCCW Shops staff member	

KEY FIGURES

FINANCIAL HIGHLIGHTS

For the year ended December 31, 2010
In HK$ million (except for per share data)

	2010	2009
Turnover		
Core revenue*	**21,467**	20,855
PCPD	**1,495**	4,222
	22,962	25,077
Cost of sales	**(10,533)**	(12,254)
General and administrative expenses	**(8,924)**	(9,029)
Other gains, net	**1,217**	168
Losses on property, plant and equipment	**–**	(61)
Interest income	**27**	18
Finance costs	**(1,587)**	(1,485)
Share of results of associates and jointly controlled companies	**(82)**	(55)
Impairment loss reversed on interest in an associate	**–**	1
Profit before income tax	**3,080**	2,380
Income tax	**(756)**	(585)
Profit for the year	**2,324**	1,795
Attributable to:		
Equity holders of the Company	**1,926**	1,506
Non-controlling interests	**398**	289
Earnings per share (in HK cents)		
Basic	**27.75**	22.24
Diluted	**27.75**	22.23
Dividends per share (in HK cents)		
Interim dividend	**5.10**	–
Final dividend proposed after the balance sheet date	**10.20**	13.30
EBITDA[1]		
Core EBITDA*	**7,069**	6,718
PCPD	**284**	781
	7,353	7,499

OPERATION HIGHLIGHTS

	As at December 31, 2010	As at December 31, 2009
Exchange lines in service ('000)	**2,590**	2,588
Business lines ('000)	**1,183**	1,182
Residential lines ('000)	**1,407**	1,406
Traditional data (Exit Gbps)	**1,045**	837
International Private Leased Circuit bandwidth (Exit Mbps)	**109,864**	82,913
Total broadband access lines ('000)	**1,367**	1,297
now TV installed base ('000)	**1,039**	1,001
Mobile subscribers ('000)	**1,484**	1,422
3G post-paid ('000)	**667**	529
2G post-paid ('000)	**250**	376
2G prepaid ('000)	**567**	517

*Note: Please refer to page 24. Note 1: Please refer to page 26.

STATEMENT FROM THE CHAIRMAN

I am pleased to report that in 2010 all our core businesses made progress despite intense market competition and still cautious spending by general consumers and the commercial sector.

Last year, the Hong Kong economy continued to recover from the 2008/09 global financial crisis. For the whole of 2010, Hong Kong's Gross Domestic Product recorded a notable increase of 6.8% in real terms over the previous year. Sustained economic growth and job creation also brought down local unemployment to stabilize at lower levels.

Market activities were generally revived under these circumstances, and the Group has been able to take advantage of the recovery because of its leading position in the telecommunications sector in Hong Kong and its reputation as a reliable partner in the global ICT marketplace.

Total revenues of the Group for the year ended December 31, 2010 amounted to HK$22,962 million, with profit attributable to equity holders of the Company rising 28% year-on-year to HK$1,926 million. Profit contribution from the core businesses increased 18% to HK$1,429 million.

We have put priority on improving our capability to serve customers better. Our initiatives in the past year aimed at ensuring that customers enjoy a wider range of quadruple-play content and services through our super-fast fixed and mobile broadband networks, and that they enjoy an excellent customer experience when dealing with PCCW.

These efforts have paid off. The operational results of our business units show that PCCW remains the provider of choice across various types of services even in the face of price competition, which was most intense in the broadband and mobile markets. now TV also continued to grow its customer base (expanding by 4% from one million to 1,039,000 at the end of the year) and improve its EBITDA contribution, further proving the soundness of our content strategy and the decision not to pay excessively for the rights to the Barclays Premier League. We have sensibly deployed resources in sports property acquisitions and self-produced programs, including the ATM quiz on now 101 channel which has showcased the interactivity features of our broadband platform.

As a developer of premium properties, Pacific Century Premium Developments has benefited from the market's positive mood. It geared up its sales activities for the remaining houses in Villa Bel-Air in the second half of 2010, and they received a favorable response from the market.

In August 2010, the Company's capital structure and institutional shareholder base were strengthened. We raised US$500 million through a bond issue. Later, we placed 500 million new PCCW shares with institutional investors and raised about US$166 million. We are pleased to note that PCCW shares almost doubled their price on the Hong Kong stock exchange in 2010, reflecting investors' confidence in the Company.

The Company owes these encouraging results to the hard work and ingenuity of its employees. Working with management and the staff, the Board looks forward to another strong year in 2011, barring any negative developments in the global and Hong Kong economies.

Richard Li
Chairman
March 22, 2011

STATEMENT FROM THE GROUP MANAGING DIRECTOR

The operating environment for the Group was generally steady in 2010, with continued economic recovery both locally and globally. While competition in the Hong Kong telecommunications sector remained tough throughout the year, and consumer spending and commercial investment in telecom services remained cautious, our businesses were able to report solid results on the back of PCCW's unique service propositions and premium quality.

As the premier telecom operator and one of the most well-established companies in Hong Kong, we constantly review how we can maintain our leadership and grow our businesses even under difficult market circumstances. Last year, we successfully tackled the challenges by focusing on three important aspects: improving customer service standards, upgrading our networks, and product and service innovation. As a result, we continued to achieve good results across the Company, including good EBITDA contributions from all our quadruple-play segments.

PCCW has always considered customer service a key to success and we doubled our effort last year to raise service standards. In the fourth quarter, we announced new measures aimed to propel PCCW's service quality further ahead of our competitors. We are simplifying our service contracts so that consumers can understand them more easily, and we contact customers well in advance to discuss renewal of contracts so that they can enjoy tailor-made offers.

We have also enhanced our sales practices in order to increase customer satisfaction. Sales vans were taken off the streets in October to help relieve traffic congestion and to promote better air quality in Hong Kong. We also have plans to open a number of customer service centers for comprehensive service assistance – the first such center was opened in Causeway Bay at the end of the year. Both general and business customers can receive support for any of PCCW's quadplay services at these conveniently located centers.

We have carried out these improvements because our customers deserve first-class service quality, and excellent customer service is a foundation on which PCCW can further grow its businesses across the Company.

ENGINEERING AND NETWORK EXCELLENCE

The Group is proud of its technical excellence. For a number of years, the Company has invested significantly in the upgrade of both our fixed and mobile networks. Our competitive advantages were bolstered last year with further additions to our network infrastructure. Our core mobile network is all state-of-the-art IP-based, and we have completed the integration of our 2G and 3G networks onto a state-of-the-art radio network. Our superior network strength is demonstrated by the fact that our mobile network is supported by extensive fiber backhaul.

Increasingly we are bringing 100M service through our PON (passive optical network) rollout to more and more homes and businesses in Hong Kong where super-fast speed is required. But PCCW's broadband proposition extends way beyond mere speed. The Company uses multiple access technologies to provide speeds that are most suitable for customers whether they are at home or outdoors. Furthermore, they are supported by PCCW Global's global backbone connectivity to ensure reliable, resilient, and speedy access to global website content. PCCW Global fully supports NETVIGATOR's IPv6 requirements and its network currently ranks in the top five networks in the world in terms of global peering base.

Despite the severe price competition, which intensified in the third quarter of 2010, we maintained a low churn rate and a moderate growth in our broadband lines.

A major driver for our broadband and data businesses was consumers' embrace for smartphones and tablets. PCCW's 8,000 Wi-Fi hotspots all over Hong Kong (including 100M fiber hotspots) make auto-switching between 3G and Wi-Fi networks so seamless and effortless that customers may access the Internet anytime, anywhere and also enjoy on their devices attractive contents which are made available by our quadplay capability.

In 2010, we announced the readiness of a 42M HSPA+fiber mobile broadband network – the first in Hong Kong. Under the cutting-edge technology of the PCCW NextGen network, customers will experience ultra high-speed Internet access via their mobile devices.

Meanwhile, the Genius Brand joint venture between the Company and Hutchison Telecom continued last year to work on deploying next-generation Broadband Wireless Access (BWA) technologies – also known as LTE – after being awarded one of three 4G licenses in 2009. This will enable the joint venture to build an LTE network that will be deployed in 2011 to deliver an even richer end-user experience.

With a determined focus on customer experience and superb engineering and technology platforms, the Company has been able to offer many exciting services, and will continue to do so in the future.

Last year, the award-winning PCCW eye2 service enjoyed enthusiastic reception by Hong Kong homes, with a significant increase in customer number. Given its portability and easy access to infotainment and interactive content, PCCW eye2 represents unprecedented convenience to household members. It also creates opportunities for the Company to realize higher fixed-line ARPU through customers' increased use of its wide range of services including now TV content.

PROMISING PROSPECT FOR NOW TV

We chose not to renew the Barclays Premier League (BPL) broadcast rights after the end of the 2009/10 season because we were disciplined in the auction for these rights and we did not bid further once the auction price went beyond the value we could extract from these rights. With the loss of this football content, we did see some inevitable loss of sports pack customers. However, the acquisition of the rights to a string of prestigious European soccer leagues and TV channels of top English and European clubs, including the partnership with Manchester United Football Club, bolstered our sports proposition such that we achieved a good balance of paying customers and a satisfactory commercial return.

In addition to the Spanish La Liga, now TV also has extensive coverage of the Italian Serie A, exclusive Hong Kong rights to the French Ligue 1, and club channels of Manchester United, Chelsea, Arsenal, Liverpool, FC Barcelona and FC Bayern Munchen.

As of the end of 2010, the churn of sports pack customers fell back to normal levels and the overall now TV customer base recorded another year of growth. Substantial savings due to the non-renewal of BPL rights also started to manifest in the second half of last year, improving the margins and EBITDA outlook of the TV business.

While the growth of sports customer base was to some extent checked by the BPL effect, the Company expects the sports programs acquired during 2010 – including several non-soccer premium channels – to further fuel expansion this year. In October 2010, now TV began to bring the world-renowned NBA games to Hong Kong under a multi-year partnership with the National Basketball Association in North America. More significantly, now TV will become the exclusive Hong Kong pay-TV broadcaster of the NBA games from June 2011.

now TV customers can watch NBA games on now SPORTS and NBA TV, the 24-hour official channel of NBA. In addition to TV, the games are also simulcast on our quadplay platforms of Internet, mobile and eye services.

As we entered 2011, now TV also commenced exclusive broadcast of the PGA Tour, covering all tour events live including dozens of PGA Tour Tournaments and three World Golf Championships every season. Likewise, the events can be followed on PCCW's quadplay platforms, as well as the now Select video on-demand channel.

For rugby fans, a 24/7 international rugby channel, Setanta Sports Channel, was launched in January 2011, broadcasting for the first time in Hong Kong comprehensive rugby content from both the northern and southern hemispheres.

We are confident that the benefits of now TV's program strategy, which will become more evident this year, will enable it to more than offset the impact due to BPL non-renewal and improve the ARPU potential of the business.

REFRESHING TV EXPERIENCE

now TV provides more than 190 channels of various genres for its one million-plus customers. Subsequent to the end of the year, now TV launched its new self-produced lifestyle and entertainment channel, now 101. One of the channel's flagship programs, the ATM quiz show, was an instant hit. Tens of thousands of people participated daily in the quiz during the soft launch in February, many of whom accompanied by friends and relatives several times that number.

ATM was unveiled after more than a year's research and development capitalizing on PCCW's unmatched network strength and interactive capability. We believe innovation is the best answer to aggressive sales activities and price cuts from other operators, and we have come up with a solution that gives our viewers a totally new TV experience.

By allowing home viewers to participate in the live studio quiz show through a TV remote control, ATM's unique format has broken the mold of passive TV viewing in Hong Kong and has marked a new chapter in TV history. In the absence of the suitable technology and an equivalent interactive platform, it would not be possible for imitators to create a similar show. Meanwhile, we have filed applications for patents in relation to several features that support the show.

The popularity of the show is also contributing to our advertising revenues, which rebounded last year with the recovery of market activities. It was exceptional performance considering also the loss of BPL-related advertising in the second half of the year.

PCCW'S SMART EDGE

Last year, we introduced more applications for smart devices and enhanced the user interface for existing applications such as TV player and music player.

To facilitate sports fans to closely follow their favorite games, we launched a Sports Timetable iPhone application last December. It was the first iPhone application which provides a comprehensive broadcast timetable of live and recorded matches and related Hong Kong TV channel details for all major football leagues and NBA matches.

With this free application, users can instantly check out match schedules in the upcoming week and get real-time results on their handset. Following this, we also introduced an iPhone application on now TV's program guide.

As more handheld devices based on the Android operating system are hitting the market, these applications are also being extended for Android-based smartphones and tablets.

PCCW anticipated the increasing popularity of smartphones and tablets. As early as in January 2010, PCCW mobile already launched one of the first Android-based phones in Hong Kong and introduced a data intelligent price-cap scheme for users.

In order to satisfy the needs of an increasing number of customers using smart devices, PCCW in early 2011 rolled out a Smart 4 service offering four types of Internet access plans featuring respectively PCCW mobile HSPA SIM, NETVIGATOR Everywhere Pocket Wi-Fi, PCCW Wi-Fi, and NETVIGATOR Home Wireless. Customers may choose the services that are most suitable for their needs and at the same time take home the much sought-after tablet Samsung GALAXY Tab at a reduced price or even free of charge.

RETURN OF BUSINESS CONFIDENCE

The difficult economic environment in Hong Kong triggered by the global financial crisis began to improve at the end 2009. In the first half of 2010, business activities started to pick up steadily but it was not until the second half that a more significant rebound occurred with the return of larger-scale telecommunications projects in the commercial sector. As more offices and shops were opened, there was increased demand for voice, data and broadband services and related equipment.

To seize on these opportunities amid heavy competitive pressure, the Company reinforced its sales efforts. Coupled with our excellent customer relationships and infrastructure backup, the Company recorded continued growth in both retail commercial voice and broadband lines. Our PON offers were also welcome by the business sector.

Changes in technology and consumer behavior also created additional opportunities. For instance, smartphones and other mobile devices such as tablets have led to an upsurge in data demand and more deployment of fixed-mobile integration, while customers' demand for cloud computing services will drive up connectivity and bandwidth utilization.

The Group's teleservices business made a strategic acquisition in 2009 of a majority interest in two contact center services companies operating in the Americas and the Philippines. It enabled us to establish a foothold in the U.S., the largest call center market in the world, and enhanced our ability to provide cost-efficient multi-lingual services. The expansion has more than doubled the number of agent positions.

The operation is now one of the few call centers used by some top international brands to serve their worldwide customer needs. In 2010, it performed strongly and helped our teleservices business as a whole to report an impressive EBITDA growth.

In May 2010, PCCW Solutions announced the launch of a full spectrum of cloud computing services. As the Group's IT flagship, it continued to win contracts in IT outsourcing, data center services, systems design and integration, infrastructure and technical services, application outsourcing and business process outsourcing from major private sector companies, public organizations and government departments in Hong Kong.

In addition to a new Outsourced Development Center (ODC) in Xi'an, last year PCCW Solutions also opened an ERP Application Customer Support Center in Beijing providing comprehensive enterprise resource planning support for corporations in various provinces.

PCCW Solutions has successfully expanded services into other vertical industries. For example, it was awarded a contract to provide solutions for the digital theatre systems at the Dunhuang Mogao Caves Visitor Center in Gansu Province.

Last year, PCCW Global significantly expanded the number of inter-carrier interconnection partners in all major regions including Asia, Europe, the Americas, and the Middle East. This has further strengthened PCCW Global's MPLS network coverage and service capability to serve both enterprises and other international telecom service providers with high quality integrated global communications solutions. Today, more than 1,500 cities in over 110 countries are connected to the PCCW Global backbone for IPv6-enabled MPLS solutions.

In January 2011, PCCW and Telstra Corporation Ltd jointly announced a restructuring of 50/50 joint venture Reach Ltd. The restructuring, completed in February, has resulted in a clear division of the majority of Reach's operations to more closely align with the business objectives of Reach's shareholders, as well as to more efficiently and effectively serve their respective customers.

PCCW Global will benefit through increased efficiencies which are expected to contribute towards an enhanced competitive position in the market for international connectivity services. The restructure will include direct ownership of fibers on the RNAL system, better access and more Points of Presence for transmission globally, and additional teleport and satellite coverage for a variety of applications. It will increase capabilities to our extensive global voice network and our IPv6-enabled global IP backbone and data network.

The Reach restructuring did not affect the 2010 financial results of PCCW.

POSITIVE PROPERTY MARKET SENTIMENT

Eight houses at Pacific Century Premium Developments' (PCPD) Villa Bel-Air project were sold amid the favorable market atmosphere in 2010. Sale of houses at Villa Bel-Air will continue.

As for overseas projects, PCPD has started the detailed design for Phase One of its Hanazono all-season resort project in Hokkaido, Japan. This will consist of hotels, apartments and villas. The project in Phang-nga, southern Thailand, also made good progress over the past year.

Going forward, PCPD will continue to explore potential investment opportunities around the world, while taking heed of volatility of the global economic climate.

NEW GROWTH ON STRONG BASE

As reported in the Interim Report 2010, Hong Kong Telecommunications (HKT) Limited obtained a HK$16 billion self-arranged term loan and revolving credit facility in May amid overwhelming response from banks. Taking advantage of the favorable market environment, the Group raised US$500 million through a bond issue in August. This activity was well received by the capital markets and the issue met over US$6 billion in demand in only a few hours. In the same month, 500 million new PCCW shares were placed with institutional investors, raising about US$166 million. The proceeds of these capital exercises have helped us repay and refinance our debt as well as reduce our debt-servicing costs.

The 2010 financial results demonstrate PCCW's resilience under challenging market conditions and both our readiness and ability to innovate. All our quadplay businesses saw satisfactory development and growth last year and exhibit a forward momentum to underpin our results in the coming year. The other business units have also enhanced their positions in their respective markets to pursue opportunities that may arise in a sustained and full-fledged recovery of the economy.

While concerns about the economic outlook in the United States and Europe persist and inflation has exerted cost pressure, we remain confident about PCCW's business prospects and its continued leadership in the telecom industry because of its strong fundamentals for new growth.

Alex Arena
Group Managing Director
March 22, 2011

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

LI Tzar Kai, Richard
Chairman
Mr Li, aged 44, was appointed an Executive Director and Chairman of PCCW in August 1999. He is Chairman of PCCW's Executive Committee and a member of Nomination Committee of the Board. He is also Chairman and Chief Executive of the Pacific Century Group, Executive Director and Chairman of Pacific Century Premium Developments Limited (PCPD), Chairman of PCPD's Executive Committee, a member of PCPD's Remuneration Committee and Nomination Committee, and Chairman of Singapore-based Pacific Century Regional Developments Limited.

Mr Li is a Non-Executive Director of The Bank of East Asia, Limited. He is also a representative of Hong Kong, China to the Asia Pacific Economic Co-operation (APEC) Business Advisory Council, a member of the Center for Strategic and International Studies' International Councillors' Group in Washington, D.C., and a member of the Global Information Infrastructure Commission.

Alexander Anthony ARENA
Group Managing Director
Mr Arena, aged 59, was appointed an Executive Director of PCCW in August 1999. He is Group Managing Director of PCCW, Deputy Chairman of PCCW's Executive Committee and a member of Regulatory Compliance Committee of the Board. He is also a Director of Pacific Century Regional Developments Limited, an Executive Director and Deputy Chairman of Pacific Century Premium Developments Limited (PCPD) and a member of PCPD's Executive Committee.

Prior to joining the Pacific Century Group in 1998, Mr Arena was a Special Policy Adviser to the Hong Kong Government from 1997 to 1998. From 1993 to 1997, he was Director-General of Telecommunications at the Office of the Telecommunications Authority (OFTA) of Hong Kong, as well as a member of the Broadcasting Authority of Hong Kong.

Before taking up his post at OFTA, Mr Arena was appointed by the Hong Kong Government to plan a reform program for the liberalization of Hong Kong's telecommunications sector. Prior to his appointment to the Hong Kong Government, he served as an inaugural member of the Australian Telecommunications Authority for four years. Mr Arena has led an extensive career in public administration, specializing in high technology and infrastructure industries. From a practicing radio/communications engineer to a public policy maker, his experience spans such diverse areas as commercialization of government-owned business enterprises and deregulation in the aviation, transport, telecommunications and postal industries.

Mr Arena graduated from University of New South Wales, Australia, with a bachelor's degree in electrical engineering. He completed an MBA at Melbourne University, Australia, and is a Fellow of the Hong Kong Institution of Engineers.

Peter Anthony ALLEN
Executive Director
Mr Allen, aged 55, was appointed an Executive Director of PCCW in August 1999. He is Director of Corporate Development of PCCW, Group Managing Director of Pacific Century Regional Developments Limited and an Executive Director and Chief Financial Officer of the Pacific Century Group.

Mr Allen joined KPMG in 1976 before taking up an appointment at Occidental Petroleum Corporation in 1980. In 1983, he joined Schlumberger Limited and worked in various countries holding key management positions. In 1989, he moved to Singapore as Regional Financial Director of the Vestey Group.

Mr Allen joined Boustead Singapore Limited as Group Operations Controller in 1992 before taking up an appointment with Morgan Grenfell Investment Management (Asia) Limited as a Director and Chief Operating Officer in 1995. He joined the Pacific Century Group in 1997.

Mr Allen was educated in England and graduated from Sussex University with a degree in economics. He is a Fellow of the Institute of Chartered Accountants in England and Wales, a Fellow Member CPA Australia and a Fellow of the Institute of Certified Public Accountants of Singapore.

LEE Chi Hong, Robert
Executive Director
Mr Lee, aged 59, was appointed an Executive Director of PCCW in September 2002. He is a member of PCCW's Executive Committee. He is also an Executive Director and Chief Executive Officer of Pacific Century Premium Developments Limited (PCPD) and a member of PCPD's Executive Committee.

Mr Lee was previously an Executive Director of Sino Land Company Limited (Sino Land), at which his responsibilities included sales, finance, acquisitions, investor relations, marketing and property management. Prior to joining Sino Land, Mr Lee was a senior partner at Deacons in Hong Kong, where he specialized in banking, property development, corporate finance and dispute resolution in Hong Kong and mainland China. Before that, he was a solicitor with the London firm Pritchard Englefield & Tobin (now Pritchard Englefield). He was enrolled as a solicitor in the United Kingdom in 1979 and admitted as a solicitor in Hong Kong in 1980. Mr Lee became a Notary Public in Hong Kong in 1991.

Mr Lee had also served as a member of the panel of arbitrators of the China International Economic and Trade Arbitration Commission of the China Council for the Promotion of International Trade in Beijing.

He graduated from Cornell University in the United States in 1975 with a bachelor's degree in political science.

HUI Hon Hing, Susanna
Executive Director
Ms Hui, aged 46, was appointed an Executive Director of PCCW in May 2010. She is a member of PCCW's Executive Committee. She has been the Group Chief Financial Officer of PCCW since April 2007 and holds directorships in various PCCW group companies. Prior to her appointment as the Group Chief Financial Officer of PCCW, she was Director of Group Finance of PCCW from September 2006 to April 2007. Before that, she was Director of Finance of PCCW, with responsibility for the telecommunications services sector and regulatory accounting. She has also been the Chief Financial Officer of Pacific Century Premium Developments Limited since July 2009.

Prior to joining Hong Kong Telecommunications Limited (which was subsequently acquired by PCCW) in September 1999, Ms Hui was the chief financial officer of a listed company engaged in hotel and property investment and management.

Ms Hui graduated with a bachelor's degree in social sciences from the University of Hong Kong with first class honours. She is a qualified accountant and a member of both the Hong Kong Institute of Certified Public Accountants and the American Institute of Certified Public Accountants.

NON-EXECUTIVE DIRECTORS

Sir David FORD, KBE, LVO
Non-Executive Director
Sir David, aged 76, was appointed a Non-Executive Director of PCCW in June 2002. He started his working life as an army officer in the Royal Artillery and served in five continents. During his last five years with the army, he served with the Commando Brigade and saw active service in Aden and Borneo.

Sir David left the army in 1972 and subsequently spent more than 20 years in Hong Kong, holding a number of appointments as a senior civil servant in the Hong Kong Government and one appointment in the Northern Ireland Office.

He attended the Royal College of Defence Studies in 1982. He was Chief Secretary and Deputy Governor of the Hong Kong Government from 1986 to 1993, before becoming the Hong Kong Commissioner in London until the change of sovereignty in Hong Kong in 1997.

LU Yimin
Non-Executive Director
Mr Lu, aged 47, became a Non-Executive Director of PCCW in May 2008. He is a member of the Nomination Committee and Regulatory Compliance Committee of the Board.

Mr Lu is an Executive Director and President of China Unicom (Hong Kong) Limited. He is Vice Chairman and President of China United Network Communications Group Company Limited. He is also a Director and President of China United Network Communications Limited and a Director and President of China United Network Communications Corporation Limited.

Mr Lu joined China Network Communications Group Corporation (CNC) in December 2007, serving as senior management. Prior to joining CNC, Mr Lu was a member of the Secretary Bureau of the General Office of the Chinese Communist Party Central Committee, serving as the Deputy Director and the Director of the Information Processing Office since 1992, Secretary at deputy director general level since 2001 and Secretary at director general level since 2005.

Mr Lu is a professor level senior engineer and has extensive experience in government administration and business management. He graduated from Shanghai Jiao Tong University in 1985 with a bachelor's degree in computer science and then was awarded a master's degree in public administration by the John F. Kennedy School of Government at Harvard University in the United States.

ZUO Xunsheng
Deputy Chairman and Non-Executive Director
Mr Zuo, aged 60, became a Deputy Chairman and Non-Executive Director of PCCW in July 2007. He is a member of the Remuneration Committee and Executive Committee of the Board.

Mr Zuo is an Executive Director and a Senior Vice President of China Unicom (Hong Kong) Limited. He is also a Director of China United Network Communications Limited.

Mr Zuo joined China Network Communications Group Corporation as Vice President in April 2002, and served as Senior Vice President of China Netcom Group Corporation (Hong Kong) Limited (CNC HK) since July 2004, Chief Operating Officer of CNC HK since December 2005, an Executive Director and Chief Executive Officer of CNC HK since May 2006 and Chairman of CNC HK since May 2008.

Mr Zuo graduated from Guanghua School of Management of Peking University with an EMBA degree in 2004. From July 1993 to October 1997, Mr Zuo served as Director of the former Bureau of Telecommunications of Jinan City, Shandong Province. From October 1997 to May 2000, he served as Director of the former Posts and Telecommunications Bureau of Shandong Province. He was President of the former Shandong Telecommunications Company from May 2000 to April 2002. Mr Zuo is well experienced in telecommunications operations and has rich management experience.

LI Fushen
Non-Executive Director
Mr Li, aged 48, became a Non-Executive Director of PCCW in July 2007.

Mr Li is a Senior Vice President of China Unicom (Hong Kong) Limited. He is Vice President of China United Network Communications Group Company Limited. He is also a Director and Senior Vice President of China United Network Communications Corporation Limited. He served as an Executive Director of China Netcom Group Corporation (Hong Kong) Limited (CNC HK) since January 2007 and as Chief Financial Officer of CNC HK since September 2005. He served as Joint Company Secretary of CNC HK from December 2006 to March 2008. Since October 2005, he has served as Chief Accountant of China Network Communications Group Corporation (CNC). From October 2003 to August 2005, he served as General Manager of the Finance Department of CNC. From November 2001 to October 2003, he served as Deputy General Manager of the former Jilin Provincial Telecommunications Company and Jilin Communications Company.

Mr Li graduated from the Australian National University with a master's degree in management in 2004, and from the Jilin Engineering Institute with a degree in engineering management in 1988. Mr Li has worked in the telecommunications industry for a long period of time and has extensive management experience.

CHUNG Cho Yee, Mico
Non-Executive Director
Mr Chung, aged 50, is a Non-Executive Director of PCCW. He was an Executive Director of PCCW from November 1996 with responsibility for merger and acquisition activities and was re-designated to a Non-Executive Director of PCCW in May 2010. He joined the Pacific Century Group in March 1999.

Mr Chung graduated from University College, University of London in the United Kingdom, with a law degree in 1983 and qualified as solicitor in Hong Kong in 1986. Mr Chung is currently the Chairman and an Executive Director of CSI Properties Limited which he joined in 2004. He is also an Independent Non-Executive Director of HKC (Holdings) Limited. He was an Independent Non-Executive Director of CIAM Group Limited between March 9, 2001 and May 31, 2008.

TSE Sze Wing, Edmund, GBS
Non-Executive Director
Mr Tse, aged 73, is a Non-Executive Director of PCCW. He was an Independent Non-Executive Director of PCCW from September 2009 and was re-designated to a Non-Executive Director of PCCW in March 2011.

Mr Tse is the Non-Executive Chairman and a Non-Executive Director of AIA Group Limited. He is also the Chairman of Nan Shan Life Insurance Company, Ltd. and The Philippine American Life and General Insurance Company. From 1996 until June 2009, Mr Tse was Director of American International Group, Inc. (AIG) and from 2001 until June 2009, he was Senior Vice Chairman – Life Insurance of AIG. From 2000 until June 2009, he was also Chairman and Chief Executive Officer of American International Assurance Company, Limited. Mr Tse has held various senior positions and directorships in other AIG companies. Mr Tse is a Non-Executive Director of PICC Property and Casualty Company Limited. Mr Tse is also the Non-Executive Chairman for Asia ex-Japan of PineBridge Investments Asia Limited which is an asset management company owned indirectly by Mr Li Tzar Kai, Richard, the Chairman of PCCW.

Mr Tse was awarded the Gold Bauhinia Star (GBS) by the Government of the Hong Kong Special Administrative Region (HKSAR) in 2001 in recognition of his outstanding efforts in respect of the development of Hong Kong's insurance industry. Mr Tse graduated with a Bachelor of Arts degree in Mathematics from The University of Hong Kong (HKU) in 1960. HKU conferred an Honorary Fellowship and an Honorary Doctorate Degree in Social Sciences on Mr Tse in 1998 and 2002 respectively. He also obtained diplomas from the College of Insurance and the Graduate School of Business of Stanford University. He has extensive management experience in the insurance market, both in Asia and globally. In 2003, Mr Tse was elected to the Insurance Hall of Fame, and is so far the only Chinese to receive this most prestigious award in the global insurance industry. Mr Tse serves many community and professional organizations as well as educational institutions. He is also a Director and President of AIA Foundation, which supports charitable causes in Hong Kong.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor CHANG Hsin-kang, FREng, GBS, JP
Independent Non-Executive Director
Professor Chang, aged 70, was appointed a Director of PCCW in October 2000. He is a member of the Audit Committee and the Regulatory Compliance Committee of the Board.

Professor Chang became a Tsinghua University (Honorary Professor and) Wei Lun Senior Visiting Scholar in September 2007, and (Honorary Professor and) Yeh-Lu Xun Chair Professor at Peking University in February 2008. He was President and University Professor of City University of Hong Kong from 1996 to 2007. Prior to that, he was Dean of the School of Engineering at the University of Pittsburgh in the United States from 1994 to 1996, Founding Dean of the School of Engineering at Hong Kong University of Science and Technology from 1990 to 1994 and Chairperson of the Department of Biomedical Engineering at the University of Southern California in the United States from 1985 to 1990.

Professor Chang serves as a member of the National Committee of the Chinese People's Political Consultative Conference. He is a Foreign Member of the Royal Academy of Engineering of the United Kingdom, a Member of International Eurasian Academy of Sciences; and Chevalier dans l'Ordre National de la Lègion d'Honneur as well as Commandeur dans l'Ordre des Palmes Acadèmiques of France. He was appointed Justice of the Peace in July 1999 and awarded the Gold Bauhinia Star by the Hong Kong Government in July 2002.

He obtained his bachelor's degree in civil engineering from the National Taiwan University, a master's degree in structural engineering from Stanford University in the United States and a doctorate in fluid mechanics and biomedical engineering from Northwestern University in the United States.

Professor Chang is an Independent Non-Executive Director of Hon Kwok Land Investment Company, Limited, Brightoil Petroleum (Holdings) Limited and Nanyang Commercial Bank, Limited.

Dr The Hon Sir David LI Kwok Po, GBM, GBS, OBE, JP
Independent Non-Executive Director
Sir David, aged 72, was appointed a Director of PCCW in October 2000. He was previously a Non-Executive Deputy Chairman of the former Hong Kong-listed Cable & Wireless HKT Limited and served as a Director from November 1987 to August 2000. He is a member of the Audit Committee, Remuneration Committee, Nomination Committee and Regulatory Compliance Committee of the Board.

Sir David is Chairman and Chief Executive of The Bank of East Asia, Limited. He is also a Director of China Overseas Land & Investment Limited, COSCO Pacific Limited, Criteria CaixaCorp, S.A., Guangdong Investment Limited, The Hong Kong and China Gas Company Limited, The Hongkong and Shanghai Hotels, Limited, Hong Kong Interbank Clearing Limited, The Hong Kong Mortgage Corporation Limited, San Miguel Brewery Hong Kong Limited, SCMP Group Limited, Vitasoy International Holdings Limited and AFFIN Holdings Berhad. He was a director of China Merchants China Direct Investments Limited.

Sir David is a member of the Legislative Council of Hong Kong. He is Chairman of The Chinese Banks' Association, Limited and The Hong Kong Management Association. Sir David is also a member of the Banking Advisory Committee, a member of the Council of the Treasury Markets Association and a member of the international advisory board of Crédit Agricole S.A.

Sir Roger LOBO, CBE, LLD, JP
Independent Non-Executive Director
Sir Roger, aged 87, was appointed a Director of PCCW in August 1999. He is Chairman of the Regulatory Compliance Committee and a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Board.

He is also a Director of several organizations, including Shun Tak Holdings Limited, Johnson & Johnson (HK) Ltd., Kjeldsen & Co. (HK) Ltd., Pictet (Asia) Ltd. and Melco International Development Limited.

Sir Roger's extensive record of public service includes membership of the Hong Kong Housing Authority, the Urban Council, the Executive Council and serving as a senior member of the Legislative Council. Sir Roger also served as Commissioner of the Civil Aid Service, Chairman of the Hong Kong Broadcasting Authority and Chairman of the Advisory Committee on Post-retirement Employment.

He currently serves as Chairman (Board of Trustees) of the Vision 2047 Foundation, Vice Patron of the Community Chest of Hong Kong, the Society of Rehabilitation and Crime Prevention, Hong Kong and as Advisory Board Member of the Hong Kong Aids Foundation.

Sir Roger has received several awards and honors from the British Crown and the Vatican.

Aman MEHTA
Independent Non-Executive Director
Mr Mehta, aged 64, became an Independent Non-Executive Director of PCCW in February 2004 and is Chairman of the Audit Committee and the Nomination Committee of the Board.

He joined the Board following a distinguished career in the international banking community. Mr Mehta held the position of Chief Executive Officer of The Hongkong and Shanghai Banking Corporation Limited (HSBC) until December 2003, when he retired.

Born in India in 1946, Mr Mehta joined HSBC group in Bombay in 1967. After a number of assignments throughout HSBC group, he was appointed Manager – Corporate Planning at HSBC's headquarters in Hong Kong in 1985. After a three-year posting to Riyadh in Saudi Arabia, he was appointed Group General Manager in 1991, and General Manager – International the following year, with responsibility for overseas subsidiaries. He subsequently held senior positions in the United States, overseeing HSBC group companies in the Americas and later becoming responsible for HSBC's operations in the Middle East.

In 1998, Mr Mehta was reappointed General Manager – International, after which he became Executive Director International. In 1999, he was appointed Chief Executive Officer, a position he held until retirement.

Following his retirement in December 2003, Mr Mehta took up residence in New Delhi. He is an Independent Director on the board of several public companies and institutions in India and internationally. He is an Independent Non-Executive Director of Vedanta Resources Plc. in the United Kingdom, Tata Consultancy Services Limited, Godrej Consumer Products Limited, Jet Airways (India) Ltd. and Wockhardt Limited in Mumbai, India; Max India Limited, Cairn India Limited and Emaar MGF Land Limited in New Delhi, India. He is also an Independent Director on the Supervisory Board of ING Groep N.V., a Netherlands company.

Mr Mehta is also a member of the Governing Board of Indian School of Business, Hyderabad, and a member of the Advisory Panel of Prudential Financial Inc. in the United States.

The Hon Raymond George Hardenbergh SEITZ
Independent Non-Executive Director
Mr Seitz, aged 70, is an Independent Non-Executive Director of PCCW. He is Chairman of the Remuneration Committee and a member of the Nomination Committee of the Board. He was a Non-Executive Director of PCCW from October 2000 and was re-designated as an Independent Non-Executive Director in February 2005.

Mr Seitz was Vice-Chairman of Lehman Brothers International from April 1995 to April 2003 and was United States Ambassador in Great Britain from 1991 to 1994. Prior to that, Mr Seitz acted as the United States Assistant Secretary of State for Europe from 1989 to 1991 and Minister at the United States Embassy in London from 1984 to 1989. He was Non-Executive Chairman and a member of the Special Committee of Sun-Times Media Group, Inc. from July 2003 to January 2009.

CORPORATE GOVERNANCE REPORT

PCCW Limited ("PCCW" or the "Company") is committed to maintaining a high standard of corporate governance, the principles of which serve to uphold a high standard of ethics, transparency, responsibility and integrity in all aspects of business and to ensure that affairs are conducted in accordance with applicable laws and regulations.

We have adopted a Corporate Responsibility Policy and a Corporate Social Responsibility Policy that apply to all employees, including directors and officers, throughout the Company and its subsidiaries (collectively the "Group").

The Corporate Responsibility Policy sets out standards for the way in which employees should conduct our business in the following areas: civic responsibilities, equal opportunities, preservation of company information and property, privacy of personal data, prevention of bribery, conflicts of interest and ensuring health and safety at work. This policy also describes procedures to enable employees to raise concerns with management and directors on a confidential basis.

The Corporate Social Responsibility Policy sets out standards for the way in which we should conduct our business to minimize negative impact on society and the environment.

CORPORATE GOVERNANCE PRACTICES

PCCW has applied the principles and complied with all the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended December 31, 2010.

MODEL CODE SET OUT IN APPENDIX 10 TO THE LISTING RULES

The Company has established its own code of conduct regarding securities transactions by directors, senior management and relevant employees as defined in the Code, namely the PCCW Code of Conduct for Securities Transactions by Directors, Senior Management and Nominated Persons (the "PCCW Code") in terms no less exacting than the required standard indicated by the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Having made specific inquiries of all directors of the Company, confirmations have been received of compliance with the required standard set out in the Model Code and the PCCW Code during the accounting period covered by this annual report.

The directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company and its associated corporation are disclosed in the Report of the Directors on pages 34 to 51 of this annual report.

BOARD OF DIRECTORS

The board of directors ("Board") is responsible for the management of the Company. Key responsibilities include formulation of the overall strategies of the Group, the setting of management targets and supervision of management performance. The Board confines itself to making broad policy decisions and exercising a number of reserved powers as mentioned below, delegating responsibility for more detailed considerations to the Executive Committee under the leadership of the Chairman of PCCW:

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

- those functions and matters for which Board approval must be sought in accordance with the Group's internal policy (as amended from time to time);

- consideration and approval of financial statements in interim and annual reports, and announcements of interim and annual results;

- consideration of dividend policy and dividend amounts; and

- monitoring of the corporate governance of the Group in order to comply with applicable rules and regulations.

The Chairman of PCCW is Li Tzar Kai, Richard and the Group Managing Director is Alexander Anthony Arena. The role of the Chairman is separate from that of the Group Managing Director. The Chairman is responsible for overseeing the function of the Board while the Group Managing Director is responsible for managing the Group's business.

All directors have full and timely access to all relevant information, including regular reports from the Board committees and briefings on significant legal, regulatory or accounting issues affecting the Group. Directors may take independent professional advice, which will be paid for by the Company.

BOARD OF DIRECTORS *(CONTINUED)*

The directors acknowledge their responsibility for preparing the financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and the Group and of the profit and cash flows of the Group for the year in accordance with Hong Kong Financial Reporting Standards, the Hong Kong Companies Ordinance and the Listing Rules. In preparing the financial statements for the year ended December 31, 2010, the directors have selected suitable accounting policies and applied them consistently; made judgements and estimates that are prudent and reasonable, stated the reasons for any significant departure from applicable accounting standards in Hong Kong and have prepared the financial statements on a going-concern basis. The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position, results of operations, cash flows and changes in equity of the Group. The statement of the external auditor of the Company relating to their reporting responsibilities on the financial statements of the Company is set out in the Independent Auditor's Report on page 52 of this annual report.

Subsequent to the year end, Tse Sze Wing, Edmund has been re-designated from an independent non-executive director to a non-executive director on March 22, 2011. As at the date of this report, the Board is comprised of 16 directors including five executive directors, six non-executive directors and five independent non-executive directors. Biographies of all the directors are set out on pages 12 to 16 of this annual report. The relationships (including financial, business, family or other material or relevant relationships) among members of the Board have also been disclosed in the Report of the Directors of this annual report.

Biographies of senior corporate executives and heads of business units within the Group as at the date of this report are available on PCCW's website (www.pccw.com).

The Board held seven meetings in 2010. The Chairman of the Board and the Chairman of the Audit Committee, the Nomination Committee and the Remuneration Committee, attended the annual general meeting of the Company held on May 19, 2010.

The attendance of individual directors at the Board and Board committee meetings held in 2010 is set out in the following table:

	Meetings attended/held in 2010[4]			
Directors	Board	Audit Committee	Nomination Committee	Remuneration Committee
Executive Directors				
Li Tzar Kai, Richard *(Chairman of the Board)*	6/7	–	2/2	–
Alexander Anthony Arena *(Group Managing Director)*	7/7	–	–	–
Peter Anthony Allen	7/7	–	–	–
Lee Chi Hong, Robert	7/7	–	–	–
Hui Hon Hing, Susanna[1]	4/4	–	–	–
Non-Executive Directors				
Sir David Ford	7/7	–	–	–
Lu Yimin	7/7	–	1/2	–
Zuo Xunsheng *(Deputy Chairman of the Board)*	7/7	–	–	1/2
Li Fushen	7/7	–	–	–
Chung Cho Yee, Mico[2]	4/7	–	–	–
Independent Non-Executive Directors				
Professor Chang Hsin-kang	7/7	3/3	–	–
Dr The Hon Sir David Li Kwok Po	6/7	3/3	1/2	1/2
Sir Roger Lobo	7/7	3/3	2/2	2/2
Aman Mehta *(Chairman of the Audit Committee & the Nomination Committee)*	6/7	3/3	2/2	–
The Hon Raymond George Hardenbergh Seitz *(Chairman of the Remuneration Committee)*	7/7	–	2/2	2/2
Tse Sze Wing, Edmund[3]	7/7	–	–	–

Remarks:

1. Appointed as an executive director on May 19, 2010.
2. Re-designated from an executive director to a non-executive director on May 19, 2010.
3. Re-designated from an independent non-executive director to a non-executive director on March 22, 2011.
4. Directors may attend meetings in person, by phone or through other means of video conference or by their alternate directors in accordance with the Company's Articles of Association.

BOARD OF DIRECTORS *(CONTINUED)*

The Company has received from each of its independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers that all the five independent non-executive directors as at the date of this report, namely, Professor Chang Hsin-kang, Dr The Hon Sir David Li Kwok Po, Sir Roger Lobo, Aman Mehta and The Hon Raymond George Hardenbergh Seitz are independent in accordance with the terms of the independence guidelines set out in Rule 3.13 of the Listing Rules. Please also refer to the details disclosed in the section headed "**Independent Non-Executive Directors**" in the Report of the Directors of this annual report.

According to the Company's Articles of Association, any director so appointed by the Board to fill a casual vacancy or as an addition to the Board shall hold office only until the next following general meeting or the next annual general meeting of the Company respectively and shall then be eligible for re-election at that meeting. In addition, at each annual general meeting of the Company no less than one-third of the directors for the time being shall be subject to retirement by rotation at least once every three years. Apart from retirement by rotation pursuant to the Company's Articles of Association, each non-executive director has a term of three years. Therefore, no director will remain in office for a term of more than three years.

BOARD COMMITTEES

The Board has established the following committees with defined terms of reference. The terms of reference of the Remuneration Committee, the Nomination Committee and the Audit Committee are of no less exacting terms than those set out in the Code. To further reinforce its independence, the Audit Committee has been structured to include independent non-executive directors only and the Nomination Committee and the Remuneration Committee have been structured to include a majority of independent non-executive directors.

Executive Committee and Sub-committees

The Executive Committee of the Board operates as a general management committee with overall delegated authority from the Board. The Executive Committee determines group strategy, reviews trading performance, ensures adequate funding, examines major investments and monitors management performance. The Executive Committee reports through the Chairman to the Board.

Members of the Executive Committee are:
Li Tzar Kai, Richard *(Chairman)*
Alexander Anthony Arena *(Deputy Chairman)*
Lee Chi Hong, Robert
Zuo Xunsheng
Hui Hon Hing, Susanna

Reporting to the Executive Committee are sub-committees comprising executive directors and members of senior management who oversee all key operating and functional areas within the Group. Each sub-committee has defined terms of reference covering its authority and duties, meets frequently and reports to the Executive Committee on a regular basis.

The *Finance and Management Committee* was established in August 2003 to take over the functions of the former Finance Committee. This committee is chaired by the Group Managing Director and meets on a regular basis to review management and strategic matters across the Group and to set overall financial objectives and policies.

The *Operational Committee* is chaired by the Group Managing Director and meets on a regular basis to direct all core telecommunications, media and business solutions operations.

The *Controls and Compliance Committee*, which reports to the Finance and Management Committee, was established in 2007. It comprises senior members of PCCW's Group Finance, Group Legal, Corporate Secretariat, Group Communications, Group Internal Audit and Risk Management departments. The committee reviews procedures for the preparation of PCCW's annual and interim reports and corporate policies of the Group from time to time to ensure compliance with the various rules and obligations imposed on it as a company listed on The Stock Exchange of Hong Kong Limited.

The *Social Responsibility Committee*, which reports to the Finance and Management Committee, was established in 2007. It comprises senior members of PCCW's Group Communications, Group Human Resources, Group Legal, Corporate Secretariat, Group Finance, Risk Management and Group Strategic Purchasing departments, as well as management from individual business units. The committee meets regularly to ensure PCCW operates in a manner that minimizes negative impact on society and the environment.

The *PRC Business Development Committee* was established in April 2005 to advise on possible opportunities for expanding PCCW's operations in the PRC and monitoring the use of funds allocated and approved by the Board or relevant committee for PRC opportunities.

BOARD COMMITTEES *(CONTINUED)*

Remuneration Committee

The Remuneration Committee was formed in May 2003 with the primary objective of ensuring that PCCW is able to attract, retain and motivate high-caliber employees who will underpin the success of the Company and enhance the value of the Company to shareholders. The Remuneration Committee is responsible for overseeing the establishment and operation of formal and transparent procedures for developing the remuneration packages of directors and senior management. In addition, the committee provides effective supervision and administration of the Company's share option schemes, as well as other share incentive schemes. The committee's authority and duties are set out in written terms of reference that specify that the committee must comprise of at least three members, the majority of whom are independent non-executive directors. The terms of reference are available on PCCW's website.

Members of the Remuneration Committee are:
The Hon Raymond George Hardenbergh Seitz *(Chairman)*
Dr The Hon Sir David Li Kwok Po
Sir Roger Lobo
Zuo Xunsheng

The objective of the Company's remuneration policy is to maintain fair and competitive packages based on business requirements and industry practice. In order to determine the level of remuneration and fees paid to members of the Board, market rates and factors such as each director's workload, responsibility and job complexity are taken into account. The following factors are considered when determining the remuneration packages of directors and senior management:

- business requirements;
- individual performance and contribution to results;
- company performance and profitability;
- retention considerations and the potential of individuals;
- changes in relevant markets, including supply and demand fluctuations and changes in competitive conditions; and
- general economic situation.

During the review process, no individual director is involved in decisions relating to his own remuneration.

The Remuneration Committee met two times in 2010. The attendance of individual directors at the committee meetings is set out on page 18 of this annual report.

The following is a summary of work performed by the Remuneration Committee during 2010:

(i) review and recommendation of the non-executive directors' fees for 2010 to the Board for approval;

(ii) review and approval of the 2009 incentive bonus payments to executive directors and key management personnel;

(iii) review of the 2010 bonus scheme for executive directors and senior management; and

(iv) review of the terms of reference of the Remuneration Committee.

Details of emoluments of each director are set out in the Financial Statements on pages 88 to 90 of this annual report.

Nomination Committee

The Nomination Committee was formed in May 2003 to make recommendations to the Board on the appointment and re-appointment of directors, structure, size and composition of the Board to ensure fair and transparent procedures for the appointment and re-appointment of directors to the Board. The committee's authority and duties are set out in written terms of reference and are posted on PCCW's website.

The Company follows a formal, fair and transparent procedure for the appointment of new directors to the Board. The committee reviews the structure, size and composition of the Board, identifies suitably qualified candidates if necessary and makes recommendations to the Board for decisions.

The Nomination Committee comprises six members, the majority of whom are independent non-executive directors.

Members of the Nomination Committee are:
Aman Mehta *(Chairman)*
Dr The Hon Sir David Li Kwok Po
Li Tzar Kai, Richard
Sir Roger Lobo
Lu Yimin
The Hon Raymond George Hardenbergh Seitz

The Nomination Committee met two times in 2010. The attendance of individual directors at the committee meetings is set out on page 18 of this annual report.

BOARD COMMITTEES *(CONTINUED)*

Nomination Committee *(continued)*

The following is a summary of work performed by the Nomination Committee during 2010:

(i) recommendation to the Board for approval the list of retiring directors for re-election at the annual general meeting on May 19, 2010;

(ii) review of the independence of all independent non-executive directors;

(iii) consideration and recommendation to the Board for approval the re-designation of Chung Cho Yee, Mico from an executive director to a non-executive director and the appointment of Hui Hon Hing, Susanna as an executive director; and

(iv) review of the terms of reference of the Nomination Committee.

Audit Committee

The Audit Committee of the Board is responsible for ensuring objectivity and credibility of financial reporting, and that the directors have exercised the care, diligence and skills prescribed by law when presenting results to shareholders. The committee's authority and duties are set out in written terms of reference and are posted on PCCW's website.

The Audit Committee's responsibilities include the appointment, compensation and supervision of external auditors. To ensure external auditors' independence, procedures have been adopted by the Audit Committee for the pre-approval of all audit and permitted non-audit services to be undertaken by the external auditors.

The Audit Committee has recommended to the Board the re-appointment of PricewaterhouseCoopers for conducting statutory audits for the financial year 2011 at the forthcoming annual general meeting.

Each member of the Audit Committee is an independent non-executive director. Members of the Audit Committee are:
Aman Mehta *(Chairman)*
Professor Chang Hsin-kang
Dr The Hon Sir David Li Kwok Po
Sir Roger Lobo

The Audit Committee is provided with sufficient resources to discharge its duties and meets regularly with management, the internal auditor and external auditors and reviews their reports. During 2010, the committee met three times. The attendance of individual directors at the committee meetings is set out on page 18 of this annual report.

The following is a summary of work performed by the Audit Committee during 2010:

(i) review of the annual report and the annual results announcement for the year ended December 31, 2009, with a recommendation to the Board for approval;

(ii) review of PricewaterhouseCoopers' confirmation of independence and its report for the Audit Committee for the year ended December 31, 2009, with a recommendation to the Board for the re-appointment of PricewaterhouseCoopers at the 2010 annual general meeting;

(iii) review of continuing connected transactions;

(iv) review of the Group Internal Audit reports;

(v) review of the interim report and the interim results announcement for the six months ended June 30, 2010, with a recommendation to the Board for approval;

(vi) review and approval of PricewaterhouseCoopers' report for the Audit Committee for the six months ended June 30, 2010, the management representation letter and the Audit Strategy Memorandum for the year ended December 31, 2010;

(vii) review of the terms of reference of the Audit Committee;

(viii) consideration and approval of audit and non-audit services;

(ix) review of the corporate governance report for the year ended December 31, 2009 and the corporate governance disclosures for the six months ended June 30, 2010, with recommendations to the Board for approval; and

(x) review of the annual report on effectiveness of internal controls under the Code, with a recommendation to the Board for approval.

Subsequent to the year end, the Audit Committee reviewed the annual report and the annual results announcement for the year ended December 31, 2010, with a recommendation to the Board for approval.

BOARD COMMITTEES *(CONTINUED)*

Audit Committee *(continued)*

For the year ended December 31, 2010, fees paid and payable to the auditors of the Group amounted to approximately HK$22 million for audit services (2009: HK$18 million) and HK$18 million for non-audit services (2009: HK$16 million). The non-audit services included the following:

Nature of service	HK$ million
Tax services	8
Other services	10
	18

Regulatory Compliance Committee

A Regulatory Compliance Committee comprising executive and non-executive directors, but excluding Chairman Li Tzar Kai, Richard, has been established to review and monitor dealings with the Hutchison Whampoa Group, the Cheung Kong Group and the Hong Kong Economic Journal Company Limited. This is to ensure all dealings with these entities are conducted on an arm's-length basis.

Members of the Regulatory Compliance Committee are:
Sir Roger Lobo *(Chairman)*
Alexander Anthony Arena
Professor Chang Hsin-kang
Dr The Hon Sir David Li Kwok Po
Lu Yimin

INTERNAL CONTROLS

The directors are responsible for maintaining and reviewing the effectiveness of the Group's internal controls including material financial, operational and compliance controls, risk management functions and particularly the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programs and budget. Appropriate policies and control procedures have been designed and established to ensure that: assets are safeguarded against improper use or disposal, relevant rules and regulations are adhered to and complied with, reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements, and key risks that may impact on the Group's performance are appropriately identified and managed. Such procedures are designed to manage, rather than eliminate, the risk of failure to achieve business objectives. These procedures can only provide reasonable, and not absolute, assurance against material errors, losses and fraud.

The directors, through the Company's Audit Committee and other sub-committees of the Board, are kept regularly appraised of significant risks that may impact on the Group's performance. The Audit Committee has, at each of its regularly scheduled meetings throughout the year, received a report from Group Internal Audit on the results of their activities during the preceding period, including any significant matters pertaining to the adequacy and effectiveness of internal controls including, but not limited to any indications of failings or material weaknesses in those controls. The Risk Management Department reviews significant aspects of risk management for PCCW group companies and makes recommendations to the Audit Committee and other committees from time to time, including amongst other things, the appropriate mitigation and/or transfer of identified risk.

Group Internal Audit provides independent assurance to the Board and executive management on the adequacy and effectiveness of internal controls for the Group. The Director of Group Internal Audit reports directly to the Audit Committee, the Group Managing Director and the Group Chief Financial Officer.

Group Internal Audit adopts a risk-and-control-based audit approach. The annual work plan of Group Internal Audit covers major activities and processes of the Group's business and service units. Special reviews are also performed at management's request. The results of these audit activities are communicated to the Audit Committee and key members of executive and senior management. Audit issues are tracked, followed up for proper implementation, and progress reported to the Audit Committee, executive and senior management periodically.

Prior to the delisting of the Company's American Depositary Shares from the New York Stock Exchange, Inc, which became effective on May 18, 2007, the Company adopted policies and procedures to comply with the stringent requirements of the Sarbanes-Oxley Act ("SOA") of the United States. A key requirement of the SOA was to ensure the effectiveness of internal controls and financial reporting by requiring extensive detailed testing of its internal controls, as well as annual certification as to these matters by the management of the Company. Following the delisting, the Company has not changed its policies and procedures materially and believe that this will enhance the Company's corporate governance and business practices in the future.

INTERNAL CONTROLS *(CONTINUED)*

During 2010, Group Internal Audit conducted selective reviews of the effectiveness of the Group's system of internal controls over financial, operational, compliance controls and risk management functions with particular emphasis on those controls that safeguard customer information. Additionally, major heads of business and corporate functions were required to undertake a control self-assessment of their key controls. These results were assessed by Group Internal Audit and reported to the Audit Committee, which then reviewed and reported the same to the Board.

After a review of the accounting period ended December 31, 2010, the Audit Committee and the Board did not become aware of any areas of concern that would have an adverse impact on the Company's financial position or results of operations and considered the internal control systems to be effective and adequate including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programs and budget.

Further information on internal controls is provided under the "Corporate Governance" section on PCCW's website.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company encourages two-way communication with institutional and retail investors, as well as financial and industry analysts. Extensive information on the Company's activities is provided in the annual and interim reports and circulars, which are sent to shareholders and are also available on PCCW's website (www.pccw.com).

In addition to dispatching this annual report to shareholders, financial and other information relating to the Group and its business activities is disclosed on the Company's website in order to promote effective communication.

Regular dialogue takes place with the investment community. Inquiries from individuals on matters relating to their shareholdings and the business of the Company are welcomed and dealt with in an informative and timely manner. The relevant contact information is provided on page 148 of this annual report.

Shareholders are encouraged to attend the forthcoming annual general meeting of the Company for which at least 20 clear business days' notice is given. At the meeting, directors are available to answer questions on the Group's business.

On behalf of the Board

Philana WY Poon
Group General Counsel and Company Secretary
Hong Kong, March 22, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Consolidated profit attributable to equity holders of the Company increased by 28% to HK$1,926 million; basic earnings per share amounted to 27.75 HK cents
- Core revenue increased by 3% to HK$21,467 million; consolidated revenue including PCPD amounted to HK$22,962 million, reflecting lower property development revenue recognized
- Core EBITDA increased by 5% to HK$7,069 million; consolidated EBITDA including PCPD was HK$7,353 million
- Final dividend of 10.2 HK cents per share

MANAGEMENT REVIEW

PCCW continued to demonstrate growth and improved profitability during the year and delivered a strong financial performance in 2010, reflecting continued success of our unique quadruple-play strategy in the core business. Driven by solid growth momentum across all core business segments, core revenue increased by 3% to HK$21,467 million for the year ended December 31, 2010, while core EBITDA also increased by 5% to HK$7,069 million.

PCPD revenue, comprising primarily property development revenue from the sales of ONE Pacific Heights and the Bel-Air project, was HK$1,495 million, compared with HK$4,222 million in 2009 when the sales revenue of a larger number of Bel-Air and ONE Pacific Heights units was recognized. Albeit the lower revenue, PCPD's consolidated net profit increased by 45% to HK$864 million for 2010, after taking into account of an increase in the fair value of investment properties.

Consolidated revenue including PCPD for the year ended December 31, 2010 was HK$22,962 million, compared with HK$25,077 million in 2009. Consolidated profit attributable to equity holders of the Company for the year ended December 31, 2010 increased by 28% to HK$1,926 million. Basic earnings per share increased to 27.75 HK cents in 2010.

The board of Directors (the "Board") has recommended the payment of a final dividend of 10.2 HK cents per share for the year ended December 31, 2010.

OUTLOOK

Despite intense competitive pressure in the Hong Kong telecommunications market, PCCW has been able to continue growing its businesses through innovation, focus and hard work. Our core segments made progress in the past year and, more importantly, exhibit a momentum for further growth in 2011 as the local and global economies continue to recover from the lingering impacts of the global financial crisis. In anticipation of increased market demand, PCCW has continued to invest in its networks – particularly in high speed fixed and mobile broadband technologies.

The Company is mindful that there are still uncertainties on the path of global economic recovery and we are seeing inflationary signs as cost pressures are emerging in the Hong Kong market. In 2011, management will keep a tight rein on costs and strive to increase productivity while building on the business strategies that have enabled PCCW to register a set of solid financial results for 2010, and we will be looking out for new opportunities.

Note: Core revenue refers to consolidated revenue excluding Pacific Century Premium Developments Limited ("PCPD"), the Group's property development and investment business; core EBITDA refers to consolidated EBITDA excluding PCPD.

FINANCIAL REVIEW BY SEGMENTS

For the year ended December 31, HK$ million	2010 H1	2010 H2	2010 Full Year	2009 H1	2009 H2	2009 Full Year	Better/ (Worse) y-o-y
Revenue							
TSS	**8,321**	**8,396**	**16,717**	8,241	8,051	16,292	3%
Mobile	**838**	**871**	**1,709**	828	842	1,670	2%
TV & Content	**1,179**	**1,204**	**2,383**	1,092	1,258	2,350	1%
PCCW Solutions	**1,087**	**1,021**	**2,108**	905	939	1,844	14%
Other Businesses	**26**	**40**	**66**	26	35	61	8%
Eliminations	**(719)**	**(797)**	**(1,516)**	(624)	(738)	(1,362)	(11)%
Core revenue	**10,732**	**10,735**	**21,467**	10,468	10,387	20,855	3%
PCPD	**1,070**	**425**	**1,495**	2,306	1,916	4,222	(65)%
Consolidated revenue	**11,802**	**11,160**	**22,962**	12,774	12,303	25,077	(8)%
Cost of sales	**(5,484)**	**(5,049)**	**(10,533)**	(6,431)	(5,823)	(12,254)	14%
Operating costs before depreciation, amortization, loss on disposal of property, plant and equipment, and restructuring costs	**(2,596)**	**(2,480)**	**(5,076)**	(2,753)	(2,571)	(5,324)	5%
EBITDA[1]							
TSS	**3,398**	**3,655**	**7,053**	3,421	3,629	7,050	0%
Mobile	**152**	**203**	**355**	130	135	265	34%
TV & Content	**43**	**189**	**232**	(34)	38	4	>500%
PCCW Solutions	**100**	**141**	**241**	82	127	209	15%
Other Businesses	**(324)**	**(488)**	**(812)**	(315)	(495)	(810)	0%
Core EBITDA[1]	**3,369**	**3,700**	**7,069**	3,284	3,434	6,718	5%
PCPD	**353**	**(69)**	**284**	306	475	781	(64)%
Consolidated EBITDA[1]	**3,722**	**3,631**	**7,353**	3,590	3,909	7,499	(2)%
Core EBITDA Margin[1,2]	***31%***	***34%***	***33%***	*31%*	*33%*	*32%*	*1%*
Consolidated EBITDA Margin[1,2]	***32%***	***33%***	***32%***	*28%*	*32%*	*30%*	*2%*
Depreciation and amortization	**(1,883)**	**(1,917)**	**(3,800)**	(1,889)	(1,891)	(3,780)	(1)%
Loss on disposal of, and losses on, property, plant and equipment	**(2)**	**(43)**	**(45)**	–	(61)	(61)	26%
Net other gains and restructuring costs	**33**	**1,181**	**1,214**	(12)	255	243	400%
Interest income	**9**	**18**	**27**	12	6	18	50%
Finance costs	**(806)**	**(781)**	**(1,587)**	(748)	(737)	(1,485)	(7)%
Share of results of associates and jointly controlled companies	**(13)**	**(69)**	**(82)**	(31)	(24)	(55)	(49)%
Impairment loss reversed on interest in an associate	**–**	**–**	**–**	–	1	1	(100)%
Profit before income tax	**1,060**	**2,020**	**3,080**	922	1,458	2,380	29%

Note 1 *EBITDA represents earnings before interest income, finance costs, income tax, depreciation of property, plant and equipment, amortization of land lease premium and intangible assets, gain/loss on disposal of property, plant and equipment, investment properties and interests in leasehold land, net other gains/losses, losses on property, plant and equipment, restructuring costs, impairment losses on interests in associates and jointly controlled companies and the Group's share of results of associates and jointly controlled companies. While EBITDA is commonly used in the telecommunications industry worldwide as an indicator of operating performance, leverage and liquidity, it is not presented as a measure of operating performance in accordance with the Hong Kong Financial Reporting Standards and should not be considered as representing net cash flows from operating activities. The computation of the Group's EBITDA may not be comparable to similarly titled measures of other companies.*

Note 2 *Year-on-year percentage change was based on absolute percentage change.*

Note 3 *Figures are stated as at the period end, except for International Direct Dial ("IDD") minutes which is the total for the period.*

Note 4 *Gross debt refers to the principal amount of short-term borrowings and long-term borrowings. Net debt refers to the principal amount of short-term borrowings and long-term borrowings minus cash and cash equivalents and certain restricted cash.*

Note 5 *Group capital expenditure includes additions to property, plant and equipment, investment properties and interests in leasehold land.*

OPERATING DRIVERS[3]

	2010		2009		Better/ (Worse)
	H1	**H2**	H1	H2	y-o-y
Exchange lines in service ('000)	**2,587**	**2,590**	2,590	2,588	0%
Business lines ('000)	**1,180**	**1,183**	1,183	1,182	0%
Residential lines ('000)	**1,407**	**1,407**	1,407	1,406	0%
Total broadband access lines ('000) (Consumer, business and wholesale customers)	**1,298**	**1,367**	1,305	1,297	5%
Retail consumer broadband subscribers ('000)	**1,148**	**1,215**	1,136	1,146	6%
Retail business broadband subscribers ('000)	**114**	**115**	113	114	1%
Traditional data (Exit Gbps)	**953**	**1,045**	792	837	25%
Retail IDD minutes ('M mins)	**674**	**652**	745	710	(9)%
International Private Leased Circuit bandwidth (Exit Mbps)	**88,108**	**109,864**	78,361	82,913	33%
now TV installed base ('000)	**1,028**	**1,039**	992	1,001	4%
Mobile subscribers ('000)	**1,469**	**1,484**	1,408	1,422	4%
3G post-paid ('000)	**606**	**667**	470	529	26%
2G post-paid ('000)	**319**	**250**	430	376	(34)%
2G prepaid ('000)	**544**	**567**	508	517	10%

Telecommunications Services ("TSS")

The table below sets out the financial performance of TSS for the year ended December 31, 2010 and December 31, 2009:

For the year ended December 31, HK$ million	2010 H1	2010 H2	2010 Full Year	2009 H1	2009 H2	2009 Full Year	Better/ (Worse) y-o-y
Local Telephony Services	**1,921**	**1,679**	**3,600**	2,126	1,862	3,988	(10)%
Local Data Services	**2,627**	**2,643**	**5,270**	2,509	2,434	4,943	7%
International Telecommunications Services	**1,851**	**1,863**	**3,714**	1,807	1,871	3,678	1%
Other Services	**1,922**	**2,211**	**4,133**	1,799	1,884	3,683	12%
TSS Revenue	**8,321**	**8,396**	**16,717**	8,241	8,051	16,292	3%
Cost of sales	**(3,349)**	**(3,571)**	**(6,920)**	(2,954)	(3,103)	(6,057)	(14)%
Operating costs before depreciation and amortization	**(1,574)**	**(1,170)**	**(2,744)**	(1,866)	(1,319)	(3,185)	14%
TSS EBITDA[1]	**3,398**	**3,655**	**7,053**	3,421	3,629	7,050	0%
TSS EBITDA margin[1,2]	***41%***	***44%***	***42%***	*42%*	*45%*	*43%*	

TSS revenue reported an increase of 3% to HK$16,717 million for the year ended December 31, 2010, while EBITDA remained stable at HK$7,053 million.

Local Telephony Services. Local telephony services revenue for the year ended December 31, 2010 was HK$3,600 million while total fixed lines in service at the end of 2010 increased slightly to 2,590,000. However, ARPU was under pressure in face of competition and fixed-mobile substitution. Nevertheless, more customers subscribed to PCCW eye Multimedia Service and PCCW eye2 during the year to enjoy a wide range of innovative features, which provides a potential uplift of ARPU in future.

Local Data Services. Local data services revenue, comprising broadband network revenue and local data revenue, increased by 7% to HK$5,270 million for the year ended December 31, 2010. The increase was underpinned by a remarkable 8% growth in broadband network revenue on the back of the rollout of higher speed services and our unique fixed/wireless broadband proposition, as well as more frequent net-surfing for online shopping, social networking and movie watching. At the end of 2010, total broadband access lines increased by 5% to 1,367,000.

International Telecommunications Services. International telecommunications services revenue for the year ended December 31, 2010 grew moderately to HK$3,714 million. The increase was driven by the satisfactory growth of wholesale voice and international connectivity services revenue due to the continued increase in demand for international bandwidth, but was partially offset by the lower IDD revenue from consumer and business customers.

Other Services. Other services revenue primarily included revenue from the sales of network equipment and customer premises equipment ("CPE") to consumers and enterprises, teleservices business, and provision of technical and maintenance services. Other services revenue for the year ended December 31, 2010 increased by 12% to HK$4,133 million, primarily driven by the 53% revenue growth of the teleservices business through organic growth and overseas expansion. Stronger CPE sales and other larger-scale telecommunications projects that had arisen from the increased business confidence also contributed to the revenue increase.

Mobile

For the year ended December 31, HK$ million	2010 H1	2010 H2	2010 Full Year	2009 H1	2009 H2	2009 Full Year	Better/ (Worse) y-o-y
Mobile Revenue	**838**	**871**	**1,709**	828	842	1,670	2%
Mobile EBITDA[1]	**152**	**203**	**355**	130	135	265	34%

Total mobile revenue for the year ended December 31, 2010 amounted to HK$1,709 million, a 2% increase compared to a year ago. Mobile subscription revenue increased by 3% in 2010, notably driven by an increased usage of mobile data with the rising popularity of smartphones and other smart devices.

Increased 3G data usage driven by smart devices with better margin thereon, combined with a highly cost efficient state-of-the-art integrated network and cost savings from certain cell site sharing arrangements, resulted in a significant increase of 34% in EBITDA to HK$355 million for the year ended December 31, 2010.

PCCW mobile's total subscribers reached 1,484,000 at the end of 2010, an increase of 4% over the previous year. 3G subscribers expanded to 667,000, 26% higher than a year ago. Total post-paid subscribers increased steadily to 917,000. 3G subscribers as a percentage of the total post-paid subscriber base continued to trend upward to 73% at the end of December 2010, compared to 58% a year earlier.

With PCCW mobile's leadership in high-speed data network, mobile data revenue continued its strong traction with another notable year-on-year growth of 47%, accounting for 41% of the mobile subscription revenue in 2010. Because PCCW mobile's innovative data services and products were well received in the smartphone and tablet markets, the proportion of smart devices users within our 3G customer base also increased significantly to 62% at the end of 2010.

Given the increased usage of data services and a larger 3G subscriber base, our blended 2G and 3G ARPU in December 2010 increased to HK$143, compared with HK$134 in June 2010.

TV & Content

For the year ended December 31, HK$ million	2010 H1	2010 H2	2010 Full Year	2009 H1	2009 H2	2009 Full Year	Better/ (Worse) y-o-y
TV & Content Revenue	**1,179**	**1,204**	**2,383**	1,092	1,258	2,350	1%
TV & Content EBITDA[1]	**43**	**189**	**232**	(34)	38	4	>500%

TV & Content business entered a new phase in 2010, reporting its first positive meaningful EBITDA of HK$232 million for the full year, which was significantly higher than the HK$4 million in 2009. This was the result of now TV's successful new content strategy whereby substantial cost savings were achieved following the non-renewal of Barclays Premier League ("BPL") broadcast rights in the second half of the year.

now TV maintained its market leadership with a continuous commitment to providing viewers with high quality programming, offering more than 190 channels of various genres that are complemented by on-demand and other interactive services. Following its decision not to renew the BPL broadcast rights, the Group has utilized its resources more effectively to acquire a range of top football and new premium sports programs to bolster its sports proposition. In addition, now TV has strengthened its suite of self-produced programs, including a brand new lifestyle and entertainment channel that was launched in early 2011.

During the year, the installed subscriber base expanded 4% to 1,039,000 at the end of 2010. The installed base ARPU, however, slightly softened to HK$165 at the end of 2010 from HK$174 a year earlier, as the price for the Mega Sports Pack was adjusted after the Group decided not to renew the BPL broadcast rights after the end of the 2009-2010 season. Meanwhile, advertising revenue rebounded in 2010, especially in the second half upon further revitalization of market activities. On balance, revenue for the year ended December 31, 2010 still increased slightly to HK$2,383 million.

PCCW Solutions

For the year ended December 31, HK$ million	2010 H1	2010 H2	2010 Full Year	2009 H1	2009 H2	2009 Full Year	Better/ (Worse) y-o-y
PCCW Solutions Revenue	**1,087**	**1,021**	**2,108**	905	939	1,844	14%
PCCW Solutions EBITDA[1]	**100**	**141**	**241**	82	127	209	15%

As a leading IT service provider, PCCW Solutions continued to perform very well in 2010. Benefiting from the general market recovery and impressive business growth in mainland China, PCCW Solutions reported strong results for the year ended December 31, 2010, with revenue surging by 14% to HK$2,108 million and EBITDA increasing by 15% to HK$241 million.

During the year, PCCW Solutions extended its core capabilities to launch a full spectrum of cloud computing services spanning across infrastructure, platform, application, content and process. In Hong Kong, PCCW Solutions continued to make good progress in securing new contracts as well as expanding service scope with existing clients in both the private and public sectors for IT outsourcing, data center, systems design and integration, infrastructure and technical services, application outsourcing and business process outsourcing.

Meanwhile, revenue contribution from projects with telecommunications companies in mainland China continued to grow strongly in 2010, and PCCW Solutions has successfully expanded services into other vertical industries in the Mainland.

PCPD

PCPD recorded a revenue of HK$1,495 million for the year ended December 31, 2010, compared with HK$4,222 million a year earlier. Albeit the lower revenue, PCPD's consolidated net profit increased by 45% to HK$864 million for 2010, after taking into account of an increase in the fair value of investment properties.

In Hong Kong, eight houses at Villa Bel-Air were sold at favorable prices during 2010, and the sale of the remaining houses will continue. Pacific Century Place, PCPD's investment property in Beijing, mainland China, enjoyed an average occupancy rate of approximately 76% for the year ended December 31, 2010.

As for overseas projects, design work for Phase I of the Hanazono all-season resort in Hokkaido, Japan is now underway. The resort will consist of hotels, apartments and villas. In addition, PCPD has signed contracts with one of the top-class international hotel operators for the management of a hotel in its project in Phang-nga, southern Thailand.

For more information about the performance of PCPD, please refer to its 2010 annual results released on March 22, 2011.

Other Businesses

Other Businesses primarily comprised certain overseas operations and corporate support functions. Revenue from Other Businesses was HK$66 million for the year ended December 31, 2010. During the year, the cost to the Group of Other Businesses remained stable at HK$812 million.

Eliminations

Eliminations was HK$1,516 million for the year ended December 31, 2010. Eliminations is related to internal charges for telecommunications services consumed, IT support and computer system network charges, customer support services and rental among the Group's business units.

Costs

Cost of Sales

For the year ended December 31, HK$ million	2010 H1	2010 H2	2010 Full Year	2009 H1	2009 H2	2009 Full Year	Better/ (Worse) y-o-y
The Group (excluding PCPD)	**4,932**	**4,837**	**9,769**	4,507	4,669	9,176	(6)%
PCPD	**552**	**212**	**764**	1,924	1,154	3,078	75%
Group Total	**5,484**	**5,049**	**10,533**	6,431	5,823	12,254	14%

The Group's consolidated total cost of sales for the year ended December 31, 2010 decreased by 14% to HK$10,533 million. The change was primarily due to a 75% decrease in PCPD's cost of sales to HK$764 million in relation to lower cost recognized for its property development projects. Gross margin improved to 54% in 2010, compared with 51% a year ago.

As core revenue increased, the Group's cost of sales excluding PCPD also increased to HK$9,769 million.

General and Administrative Expenses

The Group continued to implement cost management measures appropriate for the challenging operating environment in 2010. Operating expenses such as marketing, corporate support functions and operating costs of property, plant and equipment, net were reduced, resulting in a 7% decrease in core operating expenses (excluding PCPD) and an overall 5% decrease in total operating expenses before depreciation and amortization, loss on disposal of property, plant and equipment, and restructuring costs for the year ended December 31, 2010. Taking into account the depreciation and amortization expenses of HK$3,800 million, general and administrative expenses decreased to HK$8,924 million.

EBITDA[1]

Solid performance in all core segments led to an overall core EBITDA improvement in 2010. Core EBITDA increased by 5% to HK$7,069 million for the year ended December 31, 2010. Core EBITDA margin also improved to 33% in 2010 from 32% in 2009.

With PCPD EBITDA at HK$284 million due to lower property development EBITDA recognized from ONE Pacific Heights and the Bel-Air project, consolidated EBITDA including PCPD decreased by 2% from a year ago to HK$7,353 million for the year ended December 31, 2010. Consolidated EBITDA margin increased by 2 percentage points from a year ago to 32% in 2010.

Interest Income and Finance Costs

Interest income increased by 50% to HK$27 million for the year ended December 31, 2010 due to a higher average deposit income rate in 2010. Finance costs increased by 7% to HK$1,587 million due to one-off expenses associated with the new term loan and revolving credit facility during the year. Net finance cost, therefore, increased by 6% to HK$1,560 million.

Income Tax

Income tax expenses for the year ended December 31, 2010 increased by 29% to HK$756 million, and the Group's effective tax rate for the year ended December 31, 2010 was 25% (2009: 25%). The increase in tax expenses was mainly due to increases in certain overseas tax provisions and deferred income tax (relating to property valuation).

The rate is higher than the statutory tax rate of 16.5%, mainly due to the fact that losses of some companies cannot be offset against profits of other companies for Hong Kong tax purposes. Excluding this factor, the Group would have an effective tax rate around the statutory tax rate of 16.5%.

Non-controlling Interests

Non-controlling interests of HK$398 million primarily represented the net profit attributable to the minority shareholders of PCPD.

Consolidated Profit Attributable to Equity Holders of the Company

Consolidated profit attributable to equity holders of the Company for the year ended December 31, 2010 increased by 28% to HK$1,926 million (2009: HK$1,506 million).

LIQUIDITY AND CAPITAL RESOURCES

The Group actively and regularly reviews and manages its capital structure to maintain a balance between higher shareholders' return with higher level of borrowings and a sound capital position. The Group also makes adjustments to maintain an optimal capital structure in light of changes in economic conditions and to reduce cost of capital.

In May 2010, the Group obtained a HK$16 billion self-arranged term loan and revolving credit facility. Taking advantage of the favorable market environment, the Group raised US$500 million through a bond issue in August 2010. In the same month, the Group placed 500,000,000 ordinary shares at a price of HK$2.60 per share, and the proceeds from the shares placement were approximately HK$1,300 million (before deduction of expenses).

The Group's gross debt[4] was HK$35,315 million as at December 31, 2010 (December 31, 2009: HK$35,262 million). Cash and cash equivalents totaled HK$8,101 million as at December 31, 2010 (December 31, 2009: HK$8,049 million). The Group's net debt[4] was HK$27,182 million as at December 31, 2010 (December 31, 2009: HK$27,161 million).

As at December 31, 2010, the Group had a total of HK$30,320 million in committed banking facilities available for liquidity management, of which HK$14,486 million remained undrawn.

The Group's gross debt[4] to total assets was 73% as at December 31, 2010 (2009: 78%).

CREDIT RATINGS OF HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

As at December 31, 2010, Hong Kong Telecommunications (HKT) Limited, an indirect wholly-owned subsidiary of the Company, had investment grade ratings with Moody's Investors Service (Baa2) and Standard & Poor's Ratings Services (BBB).

CAPITAL EXPENDITURE[5]

Group capital expenditure for the year ended December 31, 2010 was HK$1,847 million (2009: HK$1,668 million). Major outlays for the year were customer driven increases in capacity and network coverage, mainly due to expanded investments and enhancement in meeting demand on high-speed broadband services, quadruple-play and international networks.

Going forward, PCCW will continue to invest in its unique quadruple-play platform and networks having regard to the prevailing market conditions, and using assessment criteria including internal rate of return, net present value and payback period.

HEDGING

Market risk arises from foreign currency and interest rate exposures related to cash investments and borrowings. As a matter of policy, the Group continues to manage the market risk directly relating to its operations and financing and does not undertake any speculative derivative trading activities. The Finance and Management Committee, a sub-committee of the Executive Committee of the Board, determines appropriate risk management activities with the aim of prudently managing the market risk associated with transactions undertaken in the normal course of the Group's business. All treasury risk management activities are carried out in accordance with the policies and guidelines, approved by the Finance and Management Committee and the Executive Committee, which are reviewed on a regular basis.

In the normal course of business, the Group enters into forward contracts and other derivative contracts in order to limit its exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions, and all contracts are denominated in currencies of major industrial countries. As at December 31, 2010, all cross currency swap contracts were designated as cash flow hedges and fair value hedges for the Group's foreign currency denominated long-term borrowings.

CHARGE ON ASSETS

As at December 31, 2010, certain assets of the Group with an aggregate carrying value of HK$5,193 million (2009: HK$3,913 million) were pledged to secure loans and banking facilities of the Group.

CONTINGENT LIABILITIES

As at December 31, HK$ million	**2010**	2009
Performance guarantee	**377**	393
Others	**44**	34
	421	427

The Group is subject to certain corporate guarantee obligations to guarantee the performance of its wholly-owned subsidiaries in the normal course of their businesses. The amount of liabilities arising from such obligations, if any, cannot be ascertained but the Directors are of the opinion that any resulting liability would not materially affect the financial position of the Group.

The Group has assessed the likely outcome of the final assessment of the Development Maintenance Account of the Cyberport Project, details of which are disclosed in Note 3(v) to the audited consolidated financial statements.

HUMAN RESOURCES

As at December 31, 2010, the Group had approximately 19,300 employees (June 30, 2010: 18,700). About 60% of these employees work in Hong Kong and the others are based mainly in the PRC and the United States. The Company has established incentive bonus schemes designed to motivate and reward employees at all levels to achieve the Company's business performance targets. Payment of bonuses is generally based on achievement of EBITDA[1] and free cash flow targets for the Group as a whole and for each of the individual business units.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of 10.2 HK cents (2009: 13.3 HK cents) per share for the year ended December 31, 2010 subject to the approval of shareholders of the Company at the forthcoming annual general meeting. An interim dividend of 5.1 HK cents per share (2009: nil) for the six months ended June 30, 2010 was paid by the Company on October 5, 2010.

FINANCIAL INFORMATION

REPORT OF THE DIRECTORS

The board of directors (the "Board") presents its annual report together with the audited consolidated financial statements of PCCW Limited ("PCCW" or the "Company") and its subsidiaries (collectively the "Group") for the year ended December 31, 2010.

PRINCIPAL ACTIVITIES

The principal activities of the Group are the provision of local, mobile and international telecommunications services, Internet access services, interactive multimedia and pay-TV services, the sale and rental of telecommunications equipment, and the provision of computer, engineering and other technical services primarily in the Hong Kong Special Administrative Region ("Hong Kong"), and also in mainland China and elsewhere in the Asia Pacific region; investments in, and development of, systems integration, network engineering, and technology-related businesses; and investments in, and development of, infrastructure and properties in Hong Kong, mainland China and elsewhere in the Asia Pacific and Middle East regions.

Details of segment information are set out in note 6 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2010 are set out in the accompanying consolidated financial statements on page 53.

An interim dividend of 5.1 HK cents per share (2009: nil), totaling approximately HK$370 million, was paid to shareholders of the Company in October 2010.

The Board has recommended the payment of a final dividend of 10.2 HK cents (2009: 13.3 HK cents) per share for the year ended December 31, 2010 subject to the approval of shareholders of the Company at the forthcoming annual general meeting.

FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of the Group for the last five financial years is set out on page 146.

SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED COMPANIES

Particulars of the Company's principal subsidiaries, associates and jointly controlled companies are set out in notes 22 to 24 to the consolidated financial statements.

FIXED ASSETS

Details of movements in the Group's and the Company's property, plant and equipment, the Group's investment properties and interests in leasehold land during the year are set out in notes 16 to 18 to the consolidated financial statements.

BORROWINGS

Particulars of the Group's and the Company's borrowings are set out in notes 26(f) and 27 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 30 to the consolidated financial statements.

RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in note 33 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2010, the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover. The aggregate amount of purchases attributable to the Group's five largest suppliers represented less than 30% of the Group's total purchases.

DIRECTORS

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

Executive Directors

Li Tzar Kai, Richard *Chairman*
Alexander Anthony Arena *Group Managing Director*
Peter Anthony Allen
Lee Chi Hong, Robert
Hui Hon Hing, Susanna (appointed on May 19, 2010)

Non-Executive Directors

Sir David Ford, KBE, LVO
Lu Yimin
Zuo Xunsheng *Deputy Chairman*
Li Fushen
Chung Cho Yee, Mico (re-designated from an Executive Director on May 19, 2010)
Tse Sze Wing, Edmund, GBS (re-designated from an Independent Non-Executive Director on March 22, 2011)

Independent Non-Executive Directors

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

In accordance with Article 92 of the Company's Articles of Association, Hui Hon Hing, Susanna shall retire from office at the forthcoming annual general meeting and, being eligible, offer herself for re-election.

In accordance with Article 101A of the Company's Articles of Association, Peter Anthony Allen, Lee Chi Hong, Robert, Zuo Xunsheng, Li Fushen and Professor Chang Hsin-kang shall retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and considers that all the five independent non-executive directors as at the date of this report, namely, Professor Chang Hsin-kang, Dr The Hon Sir David Li Kwok Po, Sir Roger Lobo, Aman Mehta and The Hon Raymond George Hardenbergh Seitz are independent in accordance with the terms of the independence guidelines set out in Rule 3.13 of the Listing Rules.

INDEPENDENT NON-EXECUTIVE DIRECTORS *(CONTINUED)*

On September 15, 2010, PCRD Services Pte Ltd ("PCRD Services"), a wholly-owned subsidiary of Pacific Century Regional Developments Limited ("PCRD") (a substantial shareholder of the Company), together with Aman Mehta (an independent non-executive director of the Company), Akash Mehta (the son of Aman Mehta) and Pasha Ventures Private Limited ("Pasha Ventures") entered into a share sale agreement with American International Group, Inc. ("AIG"), pursuant to which Pasha Ventures, PCRD Services, Aman Mehta and Akash Mehta have agreed that Pasha Ventures will acquire the entire issued equity capital of AIG Home Finance India Limited (now known as Indo Pacific Housing Finance Limited) ("AIGHFIL") and AIGHFIL's wholly-owned subsidiary, Consumer Financial Services Limited ("CFSL"), from AIG (the "Acquisition") for an aggregate consideration of Indian Rupees 20,000,006 (equivalent to approximately HK$3.36 million). Pasha Ventures is an Indian private limited company incorporated solely for the purposes of acquiring AIGHFIL pursuant to the Acquisition. AIGHFIL is a public limited company incorporated in India and was an indirect wholly-owned subsidiary of AIG. AIGHFIL and its wholly-owned subsidiary, CFSL, originate secured housing loans and loans against properties (i.e. home equity loans). The Acquisition was completed on October 20, 2010. As of October 20, 2010, PCRD Services held 74% of the issued equity capital of Pasha Ventures, and Aman Mehta and Akash Mehta held 21% and 5% of the paid up issued equity capital of Pasha Ventures respectively. PCRD Services has entered into a Shareholders' Agreement with Aman Mehta, Akash Mehta and Pasha Ventures under which there are provisions for a call option which gives PCRD Services the right to purchase up to 1% of the paid up issued equity capital of Pasha Ventures held by Aman Mehta at an exercise price of Indian Rupees 131 per share. In addition, Akash Mehta is one of the directors of Pasha Ventures, AIGHFIL and CFSL and he does not have control over the board of directors of these companies. Save as disclosed above, Akash Mehta is not in any way connected to PCRD, PCRD Services or PCCW.

Notwithstanding Aman Mehta's investment in Pasha Ventures as mentioned above, the Company is of the view that Aman Mehta's continued independence in accordance with the terms of the independence guidelines set out in Rule 3.13 of the Listing Rules is not affected by his above investment for the following reasons: (i) Aman Mehta's investment in Pasha Ventures is a purely passive personal investment; he will not be a director of Pasha Ventures, AIGHFIL or CFSL nor will he be involved or participate in the daily operations and management of Pasha Ventures, AIGHFIL or CFSL; (ii) the businesses of Pasha Ventures, AIGHFIL or CFSL do not overlap or conflict with the businesses of the Company; and (iii) save as disclosed above, neither Aman Mehta nor Akash Mehta holds any interest, direct or indirect in PCRD and its subsidiaries.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATION

As at December 31, 2010, the directors and chief executives of the Company and their associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules:

1. Interests in the Company

The table below sets out the aggregate long positions in the shares and underlying shares of the Company held by the directors and chief executives of the Company:

Name of Director/ Chief Executive	Number of ordinary shares				Number of underlying shares held under equity derivatives	Total	Approximate percentage of issued share capital
	Personal interests	Family interests	Corporate interests	Other interests			
Li Tzar Kai, Richard	–	–	271,666,824 *(Note 1(a))*	1,698,197,335 *(Note 1(b))*	–	1,969,864,159	27.09%
Alexander Anthony Arena *(Note 3)*	760,000	–	–	–	8,000,200 *(Note 2)*	8,760,200	0.12%
Peter Anthony Allen	253,200	–	–	–	2,178,600 *(Note 4)*	2,431,800	0.03%
Lee Chi Hong, Robert	992,600 *(Note 5(a))*	511 *(Note 5(b))*	–	–	5,000,000 *(Note 4)*	5,993,111	0.08%
Sir David Ford	–	–	–	–	1,000,000 *(Note 4)*	1,000,000	0.01%
Chung Cho Yee, Mico	1,176,260	18,455 *(Note 6)*	–	–	6,755,200 *(Note 4)*	7,949,915	0.11%
Professor Chang Hsin-kang	64,000	–	–	–	–	64,000	0.001%
Dr The Hon Sir David Li Kwok Po	1,000,000	–	–	–	–	1,000,000	0.01%
Tse Sze Wing, Edmund	–	140,000 *(Note 7(a))*	200,000 *(Note 7(b))*	–	–	340,000	0.005%

Notes:

1. (a) Of these shares, Pacific Century Diversified Limited, a wholly-owned subsidiary of Chiltonlink Limited, held 237,919,824 shares and Eisner Investments Limited held 33,747,000 shares. Li Tzar Kai, Richard owned 100% of Chiltonlink Limited and Eisner Investments Limited.

   (b) These interests represented:

      (i) a deemed interest in 36,726,857 shares of the Company 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 of 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 the Company held by Yue Shun Limited;

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATION *(CONTINUED)*

1. Interests in the Company *(continued)*

Notes: *(continued)*

1. (b) *(continued)*

(ii) a deemed interest in 112,935,177 shares of the Company held by Pacific Century Group Holdings Limited ("PCGH"). Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 112,935,177 shares of the Company held by PCGH;

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

(iv) a deemed interest in 324,000 shares of the Company held by PineBridge Investments LLC ("PBI LLC") in the capacity as investment manager. PBI LLC was an indirect subsidiary of Chiltonlink Limited and Li Tzar Kai, Richard owned 100% of Chiltonlink Limited. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 324,000 shares of the Company held by PBI LLC.

2. 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) 8,000,000 underlying shares in respect of share options granted by the Company to Alexander Anthony Arena as beneficial owner, the details of which are set out in the section headed "**Share Option Schemes**" of this report.

3. As disclosed previously in the 2010 Interim Report of the Company, a private company owned by Li Tzar Kai, Richard has provided a seven year interest-free loan in the amount of US$10,000,000 to Alexander Anthony Arena at his request and for personal reasons. Alexander Anthony Arena has entered into a seven year consultancy agreement with another private company owned by Li Tzar Kai, Richard with an annual consultancy fee sufficient to repay the aforementioned loan over its seven year term. This private arrangement was reviewed by the Remuneration Committee prior to its finalization. The Committee noted that the consultancy services provided to the private company would be publicly disclosed, would not conflict with Alexander Anthony Arena's duties at PCCW and overall would be in the interests of PCCW.

4. These interests represented the interests in underlying shares in respect of share options granted by the Company to these directors as beneficial owners, the details of which are set out in the section headed "**Share Option Schemes**" of this report.

5. (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.

6. These shares were held by the spouse of Chung Cho Yee, Mico.

7. (a) These shares were held by the spouse of Tse Sze Wing, Edmund.

   (b) These shares were held by Genpoint Investments Limited, which was 100% owned by Tse Sze Wing, Edmund.

2. Interests in Associated Corporation of the Company

The table below sets out the long position in the shares and underlying shares of Pacific Century Premium Developments Limited ("PCPD") held by the director of the Company:

	Number of ordinary shares						
Name of Director	Personal interests	Family interests	Corporate interests	Other interests	Number of underlying shares held under equity derivatives	Total	Approximate percentage of issued share capital
Chung Cho Yee, Mico	–	–	–	–	5,000,000	5,000,000	0.21%

The above interest represented the interest in underlying shares in respect of share options granted by PCPD to the director of the Company as beneficial owner pursuant to PCPD's share option scheme, the details of which are set out in the section headed "**Share Option Schemes**" of this report.

Save as disclosed in the foregoing, none of the directors or chief executives of the Company or their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code of the Listing Rules as at December 31, 2010.

SHARE OPTION SCHEMES

1. **Share Option Schemes of the Company**

   The Company adopted a share option scheme on September 20, 1994 (the "1994 Scheme") and unless otherwise cancelled or amended, is valid and effective for 10 years from that date. The 1994 Scheme was amended at an extraordinary general meeting of the Company held on May 23, 2002 in order to, among other things, comply with the requirements of Chapter 17 of the Listing Rules which came into effect on September 1, 2001. At the annual general meeting of the Company held on May 19, 2004, the shareholders of the Company approved the termination of the 1994 Scheme and adoption of a new share option scheme (the "2004 Scheme"). The 2004 Scheme will remain in force for 10 years from the date of its adoption, unless otherwise cancelled or amended.

   The Company operates share option schemes, namely the 1994 Scheme and the 2004 Scheme (collectively the "Schemes"), under which the Board may, at its discretion, grant share options to any eligible person to subscribe for shares of the Company subject to the terms and conditions stipulated therein. Following termination of the 1994 Scheme in 2004, no further share options will be granted under such scheme, but in all other respects the provisions of such scheme will remain in full force and effect.

   The Schemes provide an opportunity for eligible persons to acquire proprietary interests in the Company and to encourage eligible persons to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. Eligible persons include, but are not limited to, any director, officer, employee, consultant, adviser, supplier, customer or sub-contractor of the Group or any member of it or any other person who has contributed to the development, growth or benefit of the Group as determined by the Board.

   The maximum number of shares in respect of which options may be granted under the 2004 Scheme shall not in aggregate exceed 10% of the shares of the Company in issue as at the date of approval of such scheme. As at December 31, 2010, there were no outstanding share options under the 2004 Scheme and the total number of shares of the Company that may be issued on exercise of all share options granted and yet to be exercised under the 1994 Scheme was 67,709,617 which represented approximately 0.93% of the issued share capital of the Company as at that date. The maximum entitlement for any eligible person (other than a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates) under the Schemes is that the total number of shares issued and to be issued on exercise of all options granted and to be granted in any 12-month period up to and including the date of the latest grant does not exceed 1% of the shares of the Company in issue at the relevant time. Any further grant of share options in excess of this limit is subject to shareholders' approval at a general meeting.

   The period within which an option may be exercised under each of the Schemes will be determined by the Board at its absolute discretion, save that no option may be exercised later than 10 years from the date of grant of the option.

   Under each of the Schemes, the exercise price in relation to each option shall be determined by the Board at its absolute discretion, but in any event shall not be less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of such option; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant of such option; and (iii) the nominal value of a share on the date of grant of such option.

SHARE OPTION SCHEMES *(CONTINUED)*

1. Share Option Schemes of the Company *(continued)*

Details of the share options outstanding and movements during the year ended December 31, 2010 are as follows:

A. 1994 Scheme

(1) Outstanding options at January 1, 2010 and at December 31, 2010

Name or category of participant	Date of grant *(Notes 1 & 2)*	Vesting period *(Note 1)*	Exercisable period *(Note 1)*	Exercise price HK$	Number of options Outstanding at 01.01.2010	Number of options Outstanding at 12.31.2010
Director/Chief Executive						
Alexander Anthony Arena	08.26.2000	08.26.2001 to 08.26.2005	08.26.2001 to 08.26.2010	60.1200	1,600,000	–
	02.20.2001	08.26.2001 to 08.26.2005	08.26.2001 to 01.22.2011	16.8400	1,600,000	1,600,000
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	6,400,000	6,400,000
Peter Anthony Allen	08.26.2000	08.26.2001 to 08.26.2005	08.26.2001 to 08.26.2010	60.1200	178,600	–
	02.20.2001	08.26.2001 to 08.26.2005	08.26.2001 to 01.22.2011	16.8400	178,600	178,600
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	2,000,000	2,000,000
Lee Chi Hong, Robert	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	5,000,000	5,000,000
Hui Hon Hing, Susanna*	10.27.2000	10.27.2001 to 10.27.2003	10.27.2001 to 10.27.2010	24.3600	–	–
Sir David Ford	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	1,000,000	1,000,000
Chung Cho Yee, Mico	08.26.2000	08.26.2001 to 08.26.2005	08.26.2001 to 08.26.2010	60.1200	1,060,000	–
	02.20.2001	08.26.2001 to 08.26.2005	08.26.2001 to 01.22.2011	16.8400	1,060,000	1,060,000
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	5,695,200	5,695,200

* Hui Hon Hing, Susanna, currently the Group Chief Financial Officer of the Company, was appointed as an Executive Director of the Company on May 19, 2010. She held a beneficial interest in 16,000 underlying shares in respect of share options granted by the Company under the 1994 Scheme which were included in the aggregate number of options outstanding at 01.01.2010 under the category of "**Employees**" but excluded from the number of options outstanding at 12.31.2010 under the category of "**Director/Chief Executive**" as such share options had lapsed during the year.

SHARE OPTION SCHEMES *(CONTINUED)*

1. Share Option Schemes of the Company *(continued)*

A. 1994 Scheme *(continued)*

(1) Outstanding options at January 1, 2010 and at December 31, 2010 *(continued)*

Name or category of participant	Date of grant *(Notes 1 & 2)*	Vesting period *(Note 1)*	Exercisable period *(Note 1)*	Exercise price HK$	Number of options Outstanding at 01.01.2010	Number of options Outstanding at 12.31.2010
Employees						
In aggregate	02.08.2000 to 03.08.2000	02.08.2001 to 02.08.2003	02.08.2001 to 02.08.2010	75.2400	86,700	–
	08.26.2000 to 09.24.2000	*(Note 3)*	*(Note 3)*	60.1200	823,000	–
	10.27.2000 to 11.25.2000	*(Note 4)*	*(Note 4)*	24.3600	7,554,026*	–
	01.22.2001 to 02.20.2001	*(Note 5)*	*(Note 5)*	16.8400	5,017,159	4,852,959
	02.20.2001	02.08.2002 to 02.08.2004	02.08.2002 to 02.08.2011	18.7600	86,700	86,700
	04.17.2001 to 05.16.2001	*(Note 6)*	*(Note 6)*	10.3000	1,047,640	1,039,000
	07.16.2001 to 09.15.2001	07.16.2002 to 07.16.2004	07.16.2002 to 07.16.2011	9.1600	194,600	169,120
	05.10.2002	*(Note 7)*	04.11.2003 to 04.11.2012	7.9150	86,700	86,700
	08.01.2002	08.01.2003 to 08.01.2005	08.01.2003 to 07.31.2012	8.0600	200,000	200,000
	11.13.2002	11.13.2003 to 11.13.2005	11.13.2003 to 11.12.2012	6.1500	5,860,000	5,480,000
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	29,501,672	29,054,338
	09.16.2003	09.16.2004 to 09.16.2006	09.16.2004 to 09.14.2013	4.9000	7,000	7,000
Others	08.26.2000 to 09.24.2000	*(Note 3)*	*(Note 3)*	60.1200	2,800,000	–
	01.22.2001 to 02.20.2001	*(Note 5)*	*(Note 5)*	16.8400	2,800,000	2,800,000
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	1,000,000	1,000,000

* Hui Hon Hing, Susanna, currently the Group Chief Financial Officer of the Company, was appointed as an Executive Director of the Company on May 19, 2010. She held a beneficial interest in 16,000 underlying shares in respect of share options granted by the Company under the 1994 Scheme which were included in the aggregate number of options outstanding at 01.01.2010 under the category of "**Employees**" but excluded from the number of options outstanding at 12.31.2010 under the category of "**Director/Chief Executive**" as such share options had lapsed during the year.

SHARE OPTION SCHEMES *(CONTINUED)*

1. Share Option Schemes of the Company *(continued)*

A. 1994 Scheme *(continued)*

(2) Options exercised during the year ended December 31, 2010

During the year under review, no share options were exercised by any directors or chief executives of the Company, employees of the Group or other participants.

(3) Options cancelled or lapsed during the year ended December 31, 2010

Name or category of participant	Exercise price HK$	Number of options cancelled	Number of options lapsed
Director/Chief Executive			
Alexander Anthony Arena	60.1200	–	1,600,000
Peter Anthony Allen	60.1200	–	178,600
Hui Hon Hing, Susanna	24.3600	–	16,000
Chung Cho Yee, Mico	60.1200	–	1,060,000
Employees			
In aggregate	75.2400	–	86,700
	60.1200	–	823,000
	24.3600	–	7,538,026
	16.8400	–	164,200
	10.3000	–	8,640
	9.1600	–	25,480
	6.1500	–	380,000
	4.3500	–	447,334
Others	60.1200	–	2,800,000

B. 2004 Scheme

There were no outstanding share options as at January 1, 2010 and December 31, 2010. No share options were granted to or exercised by any directors or chief executives of the Company or employees of the Group or other participants nor cancelled or lapsed during the year ended December 31, 2010.

2. Share Option Schemes of Subsidiary of the Company

A. PCPD

PCPD, an indirect non wholly-owned subsidiary of the Company, adopted a share option scheme on March 17, 2003 (the "2003 PCPD Scheme"), which was valid for 10 years after the date of adoption. In order to align the terms of the share option scheme of PCPD with those of the Company and in view of the limited number of shares capable of being issued under the 2003 PCPD Scheme relative to the current capital base of PCPD, the shareholders of PCPD approved the termination of the 2003 PCPD Scheme and the adoption of a new share option scheme (the "2005 PCPD Scheme"), particulars of which are set out in note 32(c) to the consolidated financial statements, at PCPD's annual general meeting held on May 13, 2005. The 2005 PCPD Scheme became effective on May 23, 2005 following its approval by the shareholders of the Company. No further share options will be granted under the 2003 PCPD Scheme following its termination, but the provisions of such scheme will remain in full force and effect with respect to the options granted prior to its termination. The board of directors of PCPD may, at its discretion, grant share options to any eligible person to subscribe for shares of PCPD subject to the terms and conditions stipulated in the 2005 PCPD Scheme.

SHARE OPTION SCHEMES *(CONTINUED)*

2. Share Option Schemes of Subsidiary of the Company *(continued)*

A. PCPD *(continued)*

Details of the share options outstanding under the 2003 PCPD Scheme and movements during the year ended December 31, 2010 are as follows:

2003 PCPD Scheme

(1) Outstanding options at January 1, 2010 and at December 31, 2010

Name or category of participant	Date of grant *(Note 1)*	Vesting period *(Note 1)*	Exercisable period *(Note 1)*	Exercise price HK$	Number of options Outstanding at 01.01.2010	Number of options Outstanding at 12.31.2010
Director of the Company						
Chung Cho Yee, Mico	12.20.2004	Fully vested on 12.20.2004	12.20.2004 to 12.19.2014	2.375	5,000,000	5,000,000

As at December 31, 2010, the total number of shares of PCPD that may be issued upon exercise of all share options granted and yet to be exercised under the 2003 PCPD Scheme was 5,000,000, which represented approximately 0.21% of the issued share capital of PCPD as at that date.

(2) Options granted during the year ended December 31, 2010

During the year under review, no share options were granted to any directors or chief executives of the Company or other participants under the 2003 PCPD Scheme.

(3) Options exercised during the year ended December 31, 2010

During the year under review, no share options were exercised by any directors or chief executives of the Company.

(4) Options cancelled or lapsed during the year ended December 31, 2010

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

2005 PCPD Scheme

No share options have been granted under the 2005 PCPD Scheme since its adoption.

Notes:

1. All dates are shown month/day/year.

2. Due to the large number of employees participating in the 1994 Scheme, certain information such as the date of grant can only be shown within a reasonable range in this report. For options granted to employees, the options were granted, where applicable, during the underlying periods for acceptance of the offer of such options by the employees concerned.

3. These options vest in installments during a period starting from: (i) May 26, 2001 and ending on May 26, 2003 inclusive; (ii) the first anniversary of the offer date (the "Offer Date") and ending on the third anniversary of the Offer Date inclusive; or (iii) the first anniversary of the Offer Date and ending on the fifth anniversary of the Offer Date inclusive. All these options are exercisable in installments from the commencement of the relevant vesting period until the tenth anniversary of the Offer Date.

4. These options vest in installments during a period starting from: (i) March 15, 2001 and ending on March 15, 2005 inclusive; or (ii) the first anniversary of the Offer Date and ending on the third anniversary of the Offer Date inclusive. All these options are exercisable in installments from the commencement of the relevant vesting period until the tenth anniversary of the Offer Date.

5. These options vest in installments during a period starting from: (i) dates ranging between the date of grant to August 26, 2001 and ending on dates ranging between December 7, 2002 to August 26, 2005 inclusive; (ii) the first anniversary of the Offer Date and ending on the third anniversary of the Offer Date inclusive; or (iii) the first anniversary of the Offer Date and ending on the fifth anniversary of the Offer Date inclusive. All these options are exercisable in installments from the commencement of the relevant vesting period until the tenth anniversary of the Offer Date.

6. These options vest in installments during a period starting from: (i) May 26, 2001 and ending on May 26, 2005 inclusive; (ii) the first anniversary of the Offer Date and ending on the third anniversary of the Offer Date inclusive; or (iii) the first anniversary of the Offer Date and ending on the fifth anniversary of the Offer Date inclusive. All these options are exercisable in installments from the commencement of the relevant vesting period until the tenth anniversary of the Offer Date.

7. These options vest in installments during a period starting from the first anniversary of the Offer Date and ending on the third anniversary of the Offer Date inclusive.

SHARE AWARD SCHEMES

In 2002, the Company established two employee share incentive award schemes, namely the Purchase Scheme and the Subscription Scheme, under which employees of participating subsidiaries of the Company (excluding directors of the Company) may be selected to participate in such schemes. Subject to the relevant scheme rules, each scheme provides that following the making of an award to an employee, the relevant shares are held in trust for that employee and then shall vest over a period of time provided that the employee remains an employee of the applicable subsidiary of the Company at the relevant time and satisfies any other conditions specified at the time the award is made. In May 2006, the rules of the Purchase Scheme were altered such that the directors of the Company are also eligible to participate in such scheme. During the year ended December 31, 2010, no awards have been made to any directors and employees of the Company or its subsidiaries under these two schemes.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangement that may enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors or chief executives of the Company or their spouses or children under 18 years of age had any right to subscribe for equity or debt securities of the Company or any of its associated corporations or had exercised any such right during the year.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at December 31, 2010, the following persons (other than any directors or chief executives of the Company) were substantial shareholders of the Company (as defined in the Listing Rules) and had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of shareholder	*Note*	Number of shares/underlying shares held	Approximate percentage of issued share capital
Interests			
PCRD		1,548,211,301	21.29%
PCGH	*1*	1,661,146,478	22.84%
Star Ocean Ultimate Limited	*2*	1,661,146,478	22.84%
The Ocean Trust	*2*	1,661,146,478	22.84%
The Starlite Trust	*2*	1,661,146,478	22.84%
OS Holdings Limited	*2*	1,661,146,478	22.84%
Ocean Star Management Limited	*2*	1,661,146,478	22.84%
The Ocean Unit Trust	*2*	1,661,146,478	22.84%
The Starlite Unit Trust	*2*	1,661,146,478	22.84%
China United Network Communications Group Company Limited (“Unicom”)	*3*	1,343,571,766	18.48%

Notes:

1. These interests represented (i) PCGH’s beneficial interests in 112,935,177 shares; and (ii) PCGH’s interests through its controlled corporations (being its wholly-owned subsidiaries, Borsington Limited, Pacific Century International Limited, Pacific Century Group (Cayman Islands) Limited and Anglang Investments Limited, which together controlled 75.74% of PCRD) in 1,548,211,301 shares held by PCRD.

2. On April 18, 2004, Li Tzar Kai, Richard transferred the entire issued share capital of PCGH to Ocean Star Management Limited as trustee of The Ocean Unit Trust and The Starlite Unit Trust. The entire issued share capital of Ocean Star Management Limited was held by OS Holdings Limited. The Ocean Trust and The Starlite Trust held all units of The Ocean Unit Trust and The Starlite Unit Trust respectively. Star Ocean Ultimate Limited was the discretionary trustee of The Ocean Trust and The Starlite Trust.

3. Unicom indirectly held these interests through its indirect wholly-owned subsidiary, China Netcom Corporation (BVI) Limited.

INTERESTS AND SHORT POSITIONS OF OTHER PERSONS REQUIRED TO BE DISCLOSED UNDER THE SFO

As at December 31, 2010, the following person (not being the director or chief executive or substantial shareholder (as disclosed in the previous section headed "**Interests and Short Positions of Substantial Shareholders**") of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name		Number of shares/underlying shares held	Approximate percentage of issued share capital
Interests			
Ocean Star Investment Management Limited	*Note*	1,661,146,478	22.84%

Note:

Ocean Star Investment Management Limited was deemed interested under the SFO in the shares of the Company by virtue of it being the investment manager of The Ocean Unit Trust and The Starlite Unit Trust which together held 100% of PCGH (see the notes to the previous section headed "**Interests and Short Positions of Substantial Shareholders**").

Save as disclosed above in this section and the previous section headed "**Interests and Short Positions of Substantial Shareholders**", the Company had not been notified of any other persons (other than any directors or chief executives of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at December 31, 2010.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance in relation to the Group's business (as defined in the Listing Rules) to which the Company, its subsidiaries, its holding companies or any of its fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended December 31, 2010, the interests of the directors of the Company in competing business required to be disclosed pursuant to Rule 8.10 of the Listing Rules were as follows:

Name of Director	Name of company	Nature of business	Nature of interests
Li Tzar Kai, Richard	Cheung Kong and its subsidiaries (the "Cheung Kong Group")	Property development and investment, hotel and serviced suite operation, property and project management and investment in securities	Deemed interests in Cheung Kong *(Note 1)*
	HWL and its subsidiaries (the "Hutchison Group")	Ports and related services; property and hotels; retail; energy, infrastructure, investments and others; and telecommunications	Certain personal and deemed interests in HWL *(Note 2)*
Lu Yimin	Unicom and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Vice Chairman and President of Unicom
	China United Network Communications Limited ("Unicom A-Share") and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Director and President of Unicom A-Share
	China Unicom (Hong Kong) Limited ("Unicom HK") and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Executive Director and President of Unicom HK
Zuo Xunsheng	Unicom and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Vice Chairman and Vice President of Unicom *(Note 3)*
	Unicom A-Share and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Director of Unicom A-Share
	Unicom HK and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Executive Director and Senior Vice President of Unicom HK
Li Fushen	Unicom and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Vice President of Unicom
	Unicom HK and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Senior Vice President of Unicom HK
Chung Cho Yee, Mico *(Note 4(a))*	CSI Properties Limited ("CSI") and its subsidiaries	Property investment and securities investment	Chairman and Executive Director and beneficial owner of 35.19% of CSI *(Note 4(b))*

DIRECTORS' INTERESTS IN COMPETING BUSINESS *(CONTINUED)*

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

Further, Li Tzar Kai, Richard, Alexander Anthony Arena and Peter Anthony Allen are directors of PCRD. PCRD is an investment holding company of, among others, interests in the Company and property and infrastructure investment in the Asia Pacific region.

The business interests of the Private Companies in Hong Kong are not significant when compared with the business of the Group and it is unlikely that such business interests will compete with the business of the Group. The business interests in Japan and the Asia Pacific region are also unlikely to compete with the existing business of the Group.

Li Tzar Kai, Richard has a controlling interest in some of the Private Companies. Further, he is or may be regarded as interested in PCRD and PCGH due to the interests as disclosed in the section headed "**Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporation**" of this report.

As PCRD and the Private Companies are involved in the development and/or investment of properties of different types and/or in different locations, the Group has been operating independently of, and at arm's length from, the businesses of those companies.

Furthermore, the Group holds minority equity interests in a number of Internet-related companies in which the Group is entitled to appoint, and has appointed, one or more directors to the board of these companies to represent the interests of the Group. Some or all of these companies may compete directly or indirectly, with certain aspects of the Group's business.

Other than as disclosed above, none of the directors is interested in any business, apart from the Group's businesses, which competes or is likely to compete, either directly or indirectly, with the Group's businesses.

Notes:

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

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

3. Subsequent to the year end, Zuo Xunsheng has ceased to have interest in the competing business of Unicom and its subsidiaries after his resignation from Unicom on March 9, 2011.

4. (a) Chung Cho Yee, Mico holds direct personal interest in a private company, which engages in property investment or development in Repulse Bay, Hong Kong.

   (b) Subsequent to the year end, Chung Cho Yee, Mico beneficially owns 37.12% in CSI from March 14, 2011.

CHARITABLE DONATIONS

During the year, the Group made charitable donations of approximately HK$0.4 million (2009: HK$6 million).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended December 31, 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

CONTINUING CONNECTED TRANSACTIONS

During the year ended December 31, 2010, the Group has entered into certain transactions which constituted continuing connected transactions (as defined in the Listing Rules) and details of these transactions are set out as follows in accordance with the Listing Rules:

1. China Telecommunications Corporation ("China Telecom") and its subsidiaries and associates (collectively the "CTC Group")

Unihub China Information Technology Company Limited ("UCIT") is a 50/50 equity joint venture company established in the PRC by Unihub Global Network Technology (China) Limited, an indirect non wholly-owned subsidiary of the Company, and China Huaxin Post and Telecommunications Economy Development Centre ("China Huaxin"), a wholly-owned subsidiary of China Telecom. UCIT is an indirect non wholly-owned subsidiary of the Company because the Company indirectly controls the composition of a majority of the board of directors of UCIT. China Telecom is regarded as a connected person (as defined in the Listing Rules) of the Company because China Huaxin is a substantial shareholder of UCIT and China Telecom is an associate of China Huaxin. Accordingly, members of the CTC Group are connected persons of the Company and transactions between the Group and the CTC Group constitute connected transactions for the Company under the Listing Rules.

The Group has, from time to time, entered into transactions with the CTC Group (the "CTC Transactions") relating to the acquisition and provision of certain information technology services and products. It is considered that the entering into of the CTC Transactions with the CTC Group is consistent with the commercial objectives of the Group and falls within the core business of the Group. These transactions constituted continuing connected transactions of the Company under the Listing Rules.

As referred to in the Company's announcement dated April 23, 2008, the Company set an annual cap for each of the following categories of transactions for the financial year ended December 31, 2010 based on the nature of the transactions from time to time entered into with the CTC Group:

(1) Provision of data services by the Group to the CTC Group;

(2) Provision of data services by the CTC Group to the Group; and

(3) Provision of systems integration services by the Group to the CTC Group.

As a result of the amendments to the Listing Rules which came into effect on June 3, 2010, the Company applied the exemption under Rule 14A.33(4) of the Listing Rules to the CTC Transactions by way of an announcement dated August 16, 2010. With the application of such exemption, the CTC Transactions conducted during the year ended December 31, 2010 are exempt from the reporting and annual review requirements under Chapter 14A of the Listing Rules.

2. China United Network Communications Group Company Limited ("Unicom") and its subsidiaries and associates (collectively the "Unicom Group")

China Netcom Corporation (BVI) Limited ("China Netcom BVI"), an indirect wholly-owned subsidiary of Unicom, is a substantial shareholder and connected person (as defined in the Listing Rules) of the Company. In addition, Unicom's indirect subsidiary is a substantial shareholder of 聯通黃頁信息有限公司 (Unicom Yellow Pages Information Co., Ltd.), an indirect subsidiary of the Company. Accordingly, members of the Unicom Group are connected persons of the Company and transactions between the Group and the Unicom Group constitute connected transactions for the Company under the Listing Rules.

The Group has, from time to time, entered into transactions with the Unicom Group relating to (i) the acquisition and provision of certain information technology services and products (the "Unicom Transactions"); and (ii) the lease and facility and management services as referred to in the Company's announcement dated January 4, 2008 (the "Lease and Facility and Management Services", together with the Unicom Transactions collectively referred to as the "CU Transactions"). These transactions constituted continuing connected transactions of the Company under the Listing Rules.

It is considered that the entering into of the Unicom Transactions with the Unicom Group is consistent with the commercial objectives of the Group and falls within the core business of the Group. It is anticipated that the entering into of the Unicom Transactions with the Unicom Group will further strengthen the Group's position as a provider of the information technology services in the PRC.

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

2. **China United Network Communications Group Company Limited ("Unicom") and its subsidiaries and associates (collectively the "Unicom Group")** *(continued)*

It is considered that the entering into of the Lease and Facility and Management Services with the Unicom Group will complement and ensure a stable, uninterrupted and reliable services to be provided by the Group and will allow the Group to achieve its commercial objectives and enhance the core business of the Group, which may enhance the business and performance of the Group.

As referred to in the Company's announcement dated January 23, 2009, the Company set an annual cap for each of the following categories of the Unicom Transactions for the financial year ended December 31, 2010 based on the nature of transactions from time to time entered into with the Unicom Group:

(1) Provision of data services by the Group to the Unicom Group;

(2) Provision of data services by the Unicom Group to the Group; and

(3) Provision of systems integration services by the Group to the Unicom Group.

The consideration for each of the above categories of the Unicom Transactions is or will be a fixed sum set out in the relevant agreements between the relevant parties, settled in accordance with the terms set out therein and determined by arm's length negotiations between the relevant parties with reference to (i) the estimated costs of the provision of the relevant services to and/or from the Unicom Group; and (ii) if applicable, the estimated costs of the relevant hardware equipment and the resources to be incurred by the Group for installing the same. In general, the duration or term of each Unicom Transaction will not exceed three years, other than those capacity purchase and sale contracts relating to the grant of indefeasible rights to use bandwidth capacity (the "IRU Contracts") and the IPLC services agreements relating to the grant of the rights to use the bandwidth capacity of international private leased circuit services in the form of service orders (the "IPLC Services Agreements") available on both groups' networks to and/or from the Unicom Group. The IPLC Services Agreements are not materially different in nature to the IRU Contracts.

The Group may from time to time enter into the IRU Contracts and the IPLC Services Agreements which are categorized under data services (as mentioned above) and are part of the normal commercial activities of the Group. Access Capital Limited, an independent financial adviser, which was appointed by the Company in accordance with the Listing Rules to advise on the duration of the provision of the IRU Contracts, confirmed that it was normal business practice for the provision of the IRU Contracts to be of a duration exceeding three years and be for a term up to 15 years. Access Capital Limited, an independent financial adviser, which was appointed by the Company in accordance with the Listing Rules to advise on the duration of the IPLC Services Agreements, was of the opinion that it was (i) essential to safeguard the interests of the Company and its shareholders to enter into the IPLC Services Agreements with duration exceeding three years; and (ii) a normal business practice for the provision of international private leased circuit services relating to the IPLC Services Agreements to be of a duration exceeding three years and be for a term up to six and a half years (from the Group to the Unicom Group) and five years (from the Unicom Group to the Group).

The approximate aggregate value and the annual caps of each category of the Unicom Transactions are set out below:

Category	Approximate aggregate value for the financial year ended December 31, 2010 (HK$'000)	Annual cap for the Unicom Group for the financial year ended December 31, 2010 (HK$'000)
(1) Provision of data services by the Group to the Unicom Group	72,629	370,000
(2) Provision of data services by the Unicom Group to the Group	129,628	500,000
(3) Provision of systems integration services by the Group to the Unicom Group	165,077	500,000

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

2. China United Network Communications Group Company Limited ("Unicom") and its subsidiaries and associates (collectively the "Unicom Group") *(continued)*

Regarding the Lease and Facility and Management Services, 電訊盈科信息技術(廣州)有限公司 (PCCW Solutions (Guangzhou) Limited) ("PCCW GZ"), an indirect wholly-owned subsidiary of the Company, entered into a lease and facility and management services agreement (the "Agreement") with 中國網絡通信集團公司廣東省分公司 (China Network Communications Group Corporation Guangdong Branch) ("CNC GD"), the Guangdong branch of CNC in January 2008 with duration exceeding three years. Pursuant to the Agreement, CNC GD will lease to PCCW GZ an area for use as a service centre and provide PCCW GZ with facility and management services in respect of certain area in CNC Science Town Telecommunications Hub Building situated in the Guangzhou Science Town, Guangdong Province, the PRC. As disclosed in the Company's announcement dated January 4, 2008, Access Capital Limited, an independent financial adviser, which was appointed by the Company in accordance with the Listing Rules, was of the view that the transactions under the Agreement may enhance and safeguard the business and performance of the Group, and the interests of the Company and its shareholders as a whole, and given the nature of the lease and the services to be provided by CNC GD under the Agreement and any supplemental agreement when it is entered into, it is normal business practice for the Agreement and the supplemental agreement in relation to the optional extended areas (if and when it is entered into when the area extension option is exercised by PCCW GZ pursuant to the Agreement), if any, to have a duration of 15 years, with an option to renew for another five years. The approximate service fees charged by CNC GD for the year ended December 31, 2010 was HK$4,669,154 which did not exceed the annual cap for the third year of the 15-year term of HK$30,598,000.

3. Annual Review of Continuing Connected Transactions

The Company's external auditor was engaged to report on the CU Transactions entered into by the Group for the year ended December 31, 2010 in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The external auditor has issued their unqualified letter containing their findings and conclusions in respect of the CU Transactions in accordance with Rule 14A.38 of the Listing Rules.

The Board, including the independent non-executive directors of the Company, has reviewed and confirmed that the CU Transactions for the year ended December 31, 2010 were entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or obtained from the independent third parties; and

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

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in normal course of business are set out in note 4 to the consolidated financial statements. In relation to those related party transactions that constituted connected transactions under the Listing Rules, they have complied with applicable requirements in accordance with the Listing Rules.

PUBLIC FLOAT

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Company's directors.

AUDITOR

The financial statements for the financial year ended December 31, 2010 have been audited by PricewaterhouseCoopers who will retire on conclusion of the forthcoming annual general meeting of the Company. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Philana WY Poon
Group General Counsel and Company Secretary
Hong Kong, March 22, 2011

INDEPENDENT AUDITOR'S REPORT

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
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TO THE SHAREHOLDERS OF PCCW LIMITED
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of PCCW Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 53 to 145, which comprise the consolidated and company balance sheets as at December 31, 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company statements of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud and error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at December 31, 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 22, 2011

CONSOLIDATED INCOME STATEMENT
For the year ended December 31, 2010

In HK$ million (except for earnings per share)	Note(s)	**2010**	2009
Turnover	5 & 6	**22,962**	25,077
Cost of sales		**(10,533)**	(12,254)
General and administrative expenses		**(8,924)**	(9,029)
Other gains, net	7	**1,217**	168
Losses on property, plant and equipment	8	**–**	(61)
Interest income		**27**	18
Finance costs	10	**(1,587)**	(1,485)
Share of results of associates		**47**	61
Share of results of jointly controlled companies		**(129)**	(116)
Impairment loss reversed on interest in an associate		**–**	1
Profit before income tax	6 & 9	**3,080**	2,380
Income tax	12(a)	**(756)**	(585)
Profit for the year		**2,324**	1,795
Attributable to:			
Equity holders of the Company		**1,926**	1,506
Non-controlling interests		**398**	289
Profit for the year		**2,324**	1,795
Earnings per share	15		
Basic		**27.75 cents**	22.24 cents
Diluted		**27.75 cents**	22.23 cents

The notes on pages 59 to 145 form part of these consolidated financial statements. Details of dividend payable to equity holders of the Company attributable to the profit for the year are set out in note 14.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2010

In HK$ million	**2010**	2009
Profit for the year	**2,324**	1,795
Other comprehensive income		
Translation exchange differences:		
– exchange differences on translating foreign operations	**436**	263
– reclassification adjustments	**–**	(73)
Available-for-sale financial assets:		
– changes in fair value	**27**	81
– transfer to income statement on disposal	**(10)**	–
Cash flow hedges:		
– effective portion of changes in fair value	**24**	(120)
– transfer from equity to income statement	**(94)**	(51)
Other comprehensive income for the year	**383**	100
Total comprehensive income for the year	**2,707**	1,895
Attributable to:		
Equity holders of the Company	**2,205**	1,624
Non-controlling interests	**502**	271
Total comprehensive income for the year	**2,707**	1,895

The notes on pages 59 to 145 form part of these consolidated financial statements.

CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY

For the year ended December 31, 2010

In HK$ million		The Group			The Company
			2010		**2010**
	Note(s)	**Attributable to equity holders of the Company**	**Non-controlling interests**	**Total equity**	**Total equity**
At January 1, 2010		**(5,445)**	**3,420**	**(2,025)**	**28,623**
Total comprehensive income for the year		**2,205**	**502**	**2,707**	**1,949**
Dividend paid in respect of previous year	14 & 33	**(901)**	**–**	**(901)**	**(901)**
Dividend declared and paid in respect of the current year	14 & 33	**(370)**	**–**	**(370)**	**(370)**
Dividend declared and paid to non-controlling shareholders of subsidiaries		**–**	**(1,267)**	**(1,267)**	**–**
Issue of ordinary shares, net of issuing expenses		**1,279**	**–**	**1,279**	**1,279**
Increase in ownership interest in a subsidiary	43	**(31)**	**–**	**(31)**	**–**
At December 31, 2010		**(3,263)**	**2,655**	**(608)**	**30,580**

In HK$ million			2009		2009
	Note(s)	Attributable to equity holders of the Company	Non-controlling interests	Total equity	Total equity
At January 1, 2009		1,735	3,165	4,900	37,405
Total comprehensive income for the year		1,624	271	1,895	22
Special dividend declared and paid during the year	14 & 33	(8,804)	–	(8,804)	(8,804)
Dividend declared and paid to non-controlling shareholders of a subsidiary		–	(19)	(19)	–
Increase in non-controlling interests arising from acquisition of subsidiaries	42(c)	–	3	3	–
At December 31, 2009		(5,445)	3,420	(2,025)	28,623

The notes on pages 59 to 145 form part of these consolidated financial statements.

CONSOLIDATED AND COMPANY BALANCE SHEETS

As at December 31, 2010

In HK$ million		The Group		The Company	
	Note	**2010**	2009	**2010**	2009
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	16	**15,452**	16,300	**–**	–
Investment properties	17	**5,085**	3,794	**–**	–
Interests in leasehold land	18	**552**	575	**–**	–
Properties held for/under development	19	**1,052**	904	**–**	–
Goodwill	20	**3,170**	3,096	**–**	–
Intangible assets	21	**2,388**	1,728	**–**	–
Investments in subsidiaries	22	**–**	–	**12,089**	12,089
Interest in associates	23	**233**	189	**–**	–
Interest in jointly controlled companies	24	**477**	514	**–**	–
Held-to-maturity investments		**2**	3	**–**	–
Available-for-sale financial assets	25	**281**	325	**–**	–
Derivative financial instruments	29	**152**	–	**–**	–
Deferred income tax assets	34(a)	**78**	65	**–**	–
Other non-current assets		**465**	441	**–**	–
		29,387	27,934	**12,089**	12,089
Current assets					
Properties for sale	19	**772**	698	**–**	–
Amounts due from subsidiaries	22(a)	**–**	–	**18,262**	16,586
Sales proceeds held in stakeholders' accounts	26(a)	**845**	1,271	**–**	–
Restricted cash	26(b)	**2,281**	1,001	**32**	52
Prepayments, deposits and other current assets	26(c)	**3,226**	2,488	**10**	9
Inventories	26(d)	**957**	992	**–**	–
Amounts due from related companies	4(d)	**2**	8	**–**	–
Derivative financial instruments	29	**17**	108	**–**	–
Trade receivables, net	26(e)	**2,529**	2,418	**–**	–
Tax recoverable		**16**	16	**–**	–
Cash and cash equivalents	36(d)	**8,101**	8,049	**194**	93
		18,746	17,049	**18,498**	16,740
Current liabilities					
Short-term borrowings	26(f)	**(7,800)**	(246)	**–**	(200)
Trade payables	26(g)	**(1,705)**	(1,645)	**–**	–
Accruals and other payables		**(4,005)**	(4,441)	**(7)**	(6)
Amount payable to the Government under the Cyberport Project Agreement	28	**(1,606)**	(833)	**–**	–
Carrier licence fee liabilities	35	**(143)**	(85)	**–**	–
Amounts due to related companies	4(d)	**(57)**	(42)	**–**	–
Advances from customers		**(1,860)**	(1,768)	**–**	–
Current income tax liabilities		**(568)**	(767)	**–**	–
		(17,744)	(9,827)	**(7)**	(206)
Net current assets		**1,002**	7,222	**18,491**	16,534
Total assets less current liabilities		**30,389**	35,156	**30,580**	28,623

In HK$ million	Note	The Group 2010	2009	The Company 2010	2009
Non-current liabilities					
Long-term borrowings	27	**(27,041)**	(34,667)	**–**	–
Derivative financial instruments	29	**(102)**	–	**–**	–
Deferred income tax liabilities	34(a)	**(2,109)**	(1,276)	**–**	–
Deferred income		**(727)**	(651)	**–**	–
Defined benefit liability	31(a)(i)	**(4)**	(5)	**–**	–
Carrier licence fee liabilities	35	**(895)**	(480)	**–**	–
Other long-term liabilities		**(119)**	(102)	**–**	–
		(30,997)	(37,181)	**–**	–
Net (liabilities)/assets		**(608)**	(2,025)	**30,580**	28,623
CAPITAL AND RESERVES					
Share capital	30	**1,818**	1,693	**1,818**	1,693
(Deficit)/Reserves	33	**(5,081)**	(7,138)	**28,762**	26,930
Equity attributable to equity holders of the Company		**(3,263)**	(5,445)	**30,580**	28,623
Non-controlling interests		**2,655**	3,420	**–**	–
Total equity		**(608)**	(2,025)	**30,580**	28,623

Approved and authorized for issue by the Board of Directors on March 22, 2011 and signed on behalf of the Board by

Alexander Anthony Arena
Director

Hui Hon Hing, Susanna
Director

The notes on pages 59 to 145 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2010

In HK$ million	Note	2010	2009
NET CASH GENERATED FROM OPERATING ACTIVITIES	36(a)	**5,920**	7,940
INVESTING ACTIVITIES			
Proceeds from disposals of property, plant and equipment		**6**	7
Purchases of property, plant and equipment		**(1,798)**	(1,604)
Purchases of intangible assets		**(1,356)**	(1,000)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	36(b)	**(8)**	(84)
Contingent consideration paid for subsidiaries acquired		**(85)**	–
Loan to a jointly controlled company		**(1)**	(259)
Proceeds from disposal of an associate		**17**	–
Proceeds from disposal of subsidiaries (net of cash and cash equivalents disposed of)	36(c)	**–**	842
Purchases of available-for-sale financial assets		**(28)**	–
Proceeds from disposals of available-for-sale financial assets and held-to-maturity investments		**101**	2
Interest received		**86**	86
Dividend received from associates and a jointly controlled company		**14**	16
Consideration paid to non-controlling interests for an increase in ownership interest in a subsidiary	43	**(31)**	–
Proceeds from expiry of leases		**–**	91
NET CASH USED IN INVESTING ACTIVITIES		**(3,083)**	(1,903)
FINANCING ACTIVITIES			
Proceeds from issuance of ordinary shares, net of issuing expenses		**1,279**	–
Finance fees paid for new borrowings raised		**(302)**	–
New borrowings raised		**16,152**	7,730
Interest paid		**(1,358)**	(1,507)
Repayments of borrowings		**(16,112)**	(4,719)
Dividends paid to shareholders of the Company		**(1,271)**	(8,804)
Dividends paid to non-controlling shareholders of subsidiaries		**(1,267)**	(19)
Decrease in restricted cash		**21**	50
NET CASH USED IN FINANCING ACTIVITIES		**(2,858)**	(7,269)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(21)**	(1,232)
Exchange differences		**73**	(3)
CASH AND CASH EQUIVALENTS			
Beginning of year		**8,049**	9,284
End of year	36(d)	**8,101**	8,049

The notes on pages 59 to 145 form part of these consolidated financial statements.

1 GENERAL INFORMATION

PCCW Limited (the "Company") was incorporated in the Hong Kong Special Administrative Region ("Hong Kong") and its securities have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since October 18, 1994. The address of its registered office is 39th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong. The principal activities of the Company and its subsidiaries (together the "Group") are the provision of local, mobile and international telecommunications services, Internet access services, interactive multimedia and pay-TV services, the sale and rental of telecommunications equipment, and the provision of computer, engineering and other technical services primarily in Hong Kong, and also in mainland China and elsewhere in the Asia Pacific region; investments in, and development of, systems integration, network engineering, and technology-related businesses; and investments in, and development of, infrastructure and properties in Hong Kong, mainland China and elsewhere in the Asia Pacific and Middle East regions.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

a. Statement of compliance

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term for all individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations ("Ints") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. A summary of the principal accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. The Group has adopted the new and revised HKFRSs below, which are relevant to its operations, in the preparation of the financial statements.

- HKFRS 3 (revised), 'Business combinations', and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009.

  The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed. Please refer to note 42 for further details of the business combinations that were entered into in the current accounting period.

- HKAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in profit or loss. Please refer to note 43 for further details of the transaction with non-controlling interests that was entered into in the current accounting period.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

b. Basis of preparation of the financial statements

The following new HKFRSs are mandatory for the first time for the financial year beginning January 1, 2010, but have no material effect on the Group's results and financial position for the current and prior accounting periods.

- HKAS 1 (amendment), 'Presentation of financial statements'.
- HKAS 17 (amendment), 'Leases'.
- HKAS 32 (amendment), 'Financial instruments: Presentation'.
- HKAS 39 (amendment), 'Financial instruments: Recognition and measurement'.
- HKFRS 1 (revised), 'First-time adoption of HKFRSs'.
- HKFRS 1 (amendment), 'First-time adoption of HKFRSs'.
- HKFRS 2 (amendment), 'Share-based payment'.
- HK(IFRIC) – Int 9, 'Reassessment of embedded derivatives'.
- HK(IFRIC) – Int 17, 'Distribution of non-cash assets to owners'.
- HK(IFRIC) – Int 18, 'Transfers of assets from customers'.
- HK – Int 5, 'Presentation of financial instruments – classification by the borrower of a term loan that contains a repayment on demand clause'.
- Improvement related to HKFRS 5 'Non-current assets held for sale and discontinued operations' as part of the first improvements to HKFRSs (2008) issued in October 2008 by the HKICPA.
- Second improvements to HKFRSs (2009) issued in May 2009 by the HKICPA.

The Group has not adopted any new or revised standard or interpretation that is not yet effective for the current accounting period, details of which are set out in note 44.

The consolidated financial statements for the year ended December 31, 2010 comprise the financial statements of the Company and its subsidiaries, and the Group's interests in associates and jointly controlled companies.

The measurement basis used in the preparation of the financial statements is its historical cost basis, except that the following assets and liabilities are stated at fair value as explained in the accounting policies set out below:

- investment properties (see note 2(g));

- available-for-sale financial assets (see note 2(m)(iii)); and

- derivative financial instruments (see note 2(o)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 3.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

c. Subsidiaries and non-controlling interests

Subsidiaries are entities 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 acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the aggregate fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration transferred includes the fair value of any asset, liability or equity resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (see note 2(k)). If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated income statement. Where businesses are acquired and fair values of the net assets of the acquired business are finalized within 12 months of the acquisition date, all fair value adjustments are recorded with effect from the date of acquisition and consequently may result in the restatement of previously reported financial results (see note 42).

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

Non-controlling interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Non-controlling interests are presented within equity in the consolidated balance sheet and consolidated statement of changes in equity, separately from equity attributable to the equity holders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between non-controlling interests and the equity holders of the Company.

Where losses applicable to the non-controlling interests exceed the non-controlling shareholder's interest in the equity of a subsidiary, the excess, and any further losses applicable to the non-controlling interests, are charged against the Group's interest except to the extent that the non-controlling shareholder has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the non-controlling shareholder's share of losses previously absorbed by the Group has been recovered.

For subsidiaries which have accounting year ends different from the Group, the subsidiaries prepare, for the purpose of consolidation, financial statements up to and as at the same date as the Group.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

c. Subsidiaries and non-controlling interests *(continued)*

Intra-group balances and transactions and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment of the asset transferred.

In the Company's balance sheet, investments in subsidiaries are stated at cost less impairment losses (see note 2(n)(ii)). Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

d. Associates

An associate is an entity in which the Group or the Company has significant influence, but not control or joint control, over its management, including participating in the financial and operating policy decisions.

Investments in associates are accounted for in the consolidated financial statements under the equity method and are initially recorded at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss and adjusted thereafter for the post-acquisition change in the Group's share of the associates' net assets. The consolidated income statement includes the Group's share of post-acquisition, post-tax results of the associates and any impairment losses for the year. The consolidated statement of comprehensive income includes the Group's share of the post-acquisition post-tax items of the associates' other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealized profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in the consolidated income statement.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

In the Company's balance sheet, investments in associates are stated at cost less impairment losses (see note 2(n)(ii)). The results of associates are accounted for by the Company on the basis of dividends received and receivable.

e. Jointly controlled companies

A jointly controlled company is an entity which operates under a contractual arrangement between the Group or the Company and other parties, where the contractual arrangement establishes that the Group or the Company and one or more of the other parties share joint control over the economic activity of the entity. The Group has made investments in jointly controlled companies in the People's Republic of China (the "PRC") in respect of which the partners' profit-sharing ratios during the joint venture period and share of net assets upon the expiration of the joint venture period may not be in proportion to their equity ratios, but are as defined in the respective joint venture contracts.

Investments made by means of joint venture structures where the Group or the Company controls the composition of the board of directors or equivalent governing body and/or is in a position to exercise control over the financial and operating policies of the jointly controlled companies are accounted for as subsidiaries.

Investments in jointly controlled companies are accounted for in the consolidated financial statements under the equity method, as described in note 2(d).

In the Company's balance sheet, investments in jointly controlled companies are stated at cost less impairment losses (see note 2(n)(ii)). The results of jointly controlled companies are accounted for by the Company on the basis of dividends received and receivable.

f. Property, plant and equipment

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(n)(ii)):

– buildings held for own use which are situated on leasehold/freehold land, where the fair value of the building could be measured separately from the fair value of the leasehold/freehold land at the inception of the lease (see note 2(h)); and

– other items of plant and equipment.

The cost of an item of property, plant and equipment comprises (i) its purchase price, (ii) any directly attributable costs of bringing the asset to its working condition and location for its intended use, and (iii) the initial estimate at the time of installation and during the period of use, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located.

Subsequent costs are included in the carrying amount of an item of property, plant and equipment or recognized as a separate item of property, plant and equipment, as appropriate, 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 costs, such as repairs and maintenance and overhaul costs, are recognized in the income statement as an expense in the period in which they are incurred.

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

Freehold land and projects under construction are not depreciated. Depreciation on other property, plant and equipment is calculated to write off the cost of items of property, plant and equipment, less their expected residual value, if any, using the straight line method over their estimated useful lives as follows:

Land and buildings	Over the shorter of the unexpired term of land lease and the estimated useful lives
Exchange equipment	5 to 10 years
Transmission plant	5 to 30 years
Other plant and equipment	Over the shorter of 1 to 17 years and the term of lease

The assets' useful lives and residual values, if any, are reviewed, and adjusted if appropriate, at each balance sheet date.

g. Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(h)) to earn rental income and/or for capital appreciation, and which are not occupied by the companies in the consolidated Group. Property that is being constructed or developed for future use as investment property is classified as investment property.

Investment properties are stated in the balance sheet at fair value, based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset, determined annually by independent qualified 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. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognized in the income statement. Rental income from investment properties is accounted for as described in note 2(y)(iv).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2(h)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 2(h).

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

g. Investment properties *(continued)*

When an item of property, plant and equipment is transferred to investment property following a change in its use, any differences between the carrying amount and the fair value of the item arising at the date of transfer is recognized directly in equity if it is a gain. Upon disposal of the item, the gain is transferred to retained earnings. Any loss arising in this manner is recognized immediately in the income statement.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its cost for accounting purposes. Investment property that is being redeveloped for continued future use as investment property, continues to be measured at fair value and is not reclassified as property, plant and equipment during the redevelopment.

h. Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

i. Classification of assets leased to the Group

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, except for property held under operating leases that would otherwise meet the definition of an investment property, which is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 2(g)).

ii. Assets leased out under operating leases

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

iii. Operating lease charges

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

The cost of acquiring land held under an operating lease is stated in the balance sheet as "Interests in leasehold land" and is amortized to the income statement on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 2(g)) or is held for development (see note 2(i)).

i. Properties held for/under development

Properties under development are carried at the lower of cost and the estimated net realizable value. Cost includes original land acquisition costs, costs of land use rights, construction expenditure incurred and other direct development costs attributable to such properties, including interest incurred on loans directly attributable to the development prior to the completion of construction. The net realizable value is determined by reference to estimated sale proceeds of properties sold in the ordinary course of business less all estimated selling expenses.

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

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

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

j. Properties for sale

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

k. Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled company over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities at the date of acquisition.

Goodwill is stated in the consolidated balance sheet at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units ("CGUs") and is tested annually for impairment (see note 2(n)(ii)). In respect of associates and jointly controlled companies, the carrying amount of goodwill is included in the carrying amount of the interests in associates and jointly controlled companies.

On disposal of a CGU or part of a CGU, an associate or a jointly controlled company during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

l. Intangible assets (other than goodwill)

i. Customer acquisition costs

Costs incurred to acquire contractual relationships with customers are capitalized if it is probable that future economic benefits will flow from the customers to the Group and such costs can be measured reliably. Capitalized customer acquisition costs are amortized on a straight-line basis over the minimum enforceable contractual periods. By the end of the minimum enforceable contractual period, fully amortized customer acquisition costs will be written off.

In the event that a customer terminates the contract prior to the end of the minimum enforceable contractual period, the unamortized customer acquisition cost will be written off immediately in the income statement.

ii. Carrier licences

The carrier licences to establish and maintain the telecommunication network and to provide telecommunication services are recorded as intangible assets. Upon the issuance of the licence, the cost thereof, which is the discounted value of the minimum annual fees payable over the period of the licence and directly attributable costs of preparing the asset for its intended use, is recorded together with the related obligations. Where the Group has the right to return a licence and expects to do so, the asset and the related obligation recorded reflect the expected period that the licence will be held. Amortization is provided on a straight-line basis over the estimated useful life of the licence.

The difference between the discounted value and the total of the minimum annual fee payments represents the effective cost of financing. Such finance cost will be charged to the income statement in the period in which it is incurred using the effective interest method.

Variable annual payments on top of the minimum annual payments, if any, are recognized in the income statement as incurred.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

l. Intangible assets (other than goodwill) *(continued)*

iii. Other intangible assets

Other intangible assets that are acquired by the Group are stated in the consolidated balance sheet at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (see note 2(n)(ii)). Expenditures on internally generated goodwill and brands are recognized as expenses in the period in which they are incurred.

Amortization of intangible assets with finite useful lives is charged to the income statement on a straight-line basis over their estimated useful lives. The following intangible assets with finite useful lives are amortized from the date they are available for use and their estimated useful lives are as follows:

Trademarks	2 to 20 years
Content licence	10 years
Wireless broadband licence	Over the term of licence
Carrier licences	Over the term of licence, commencing from the date of launch of the relevant telecommunication services

The assets' useful lives and their amortization method are reviewed annually.

m. Investments in debt and equity securities

The Group and the Company classify their investments in debt and equity securities, other than investments in subsidiaries, associates and jointly controlled companies, as (i) financial assets at fair value through profit or loss, (ii) held-to-maturity investments, or (iii) available-for-sale financial assets.

Investments in debt and equity securities are initially recognized at fair value plus transaction costs, except as indicated otherwise below. The fair value of quoted investments is based on current bid price. For unlisted securities or financial assets without an active market, the Group established fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs. If none of the valuation techniques results in a reasonable estimate on the fair value, the investment is stated in the balance sheet at cost less impairment losses (see note 2(n)(i)). The investments are subsequently accounted for based on their classification as set out below:

i. Financial assets at fair value through profit or loss

This category comprises financial assets held for trading and those designated as fair value through profit or loss at inception. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term or if so designated by management.

Financial assets at fair value through profit or loss are classified as current assets, if they are either held for trading or are expected to be realized within 12 months from the balance sheet date. Any attributable transaction costs are recognized in the income statement as incurred. At each balance sheet date, the fair value is re-measured with any unrealized holding gains or losses arising from the changes in fair value being recognized in the income statement in the period in which they arise. The net gain or loss recognized in the income statement does not include any interest earned or dividends on the financial assets as these are recognized in accordance with the policies set out in notes 2(y)(vi) and 2(y)(viii) respectively.

ii. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group and/or the Company have the positive intention and ability to hold to maturity. They are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date, which are classified as current assets.

Held-to-maturity investments are stated in the balance sheet at amortized cost less impairment losses (see note 2(n)(i)).

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

m. Investments in debt and equity securities *(continued)*

iii. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the Group and/or the Company intend to dispose of the investment within 12 months from the balance sheet date.

At each balance sheet date, the fair value of available-for-sale financial assets is re-measured with any unrealized holding gains or losses arising from the changes in fair value being recognized in other comprehensive income and accumulated separately in the available-for-sale financial assets reserve under equity, except for impairment losses (see note 2(n)(i)) and, in the case of monetary items such as debt securities, foreign exchange gains and losses which are recognized directly in the income statement. Dividend income from these investments is recognized in the income statement in accordance with the policy set out in note 2(y)(viii) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognized in the income statement in accordance with the policy set out in note 2(y)(vi). When the investments are derecognized or impaired (see note 2(n)(i)), the cumulative gain or loss previously recognized directly in the equity is recognized in the income statement.

Investments in debt and equity securities are recognized or derecognized on the date the Group and/or the Company commit to purchase or sell the investments or they expire.

n. Impairment of assets

i. Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities (other than investments in subsidiaries, associates and jointly controlled companies: see note 2(n)(ii)) and other current and non-current receivables that are stated at cost or amortized cost or are classified as available-for-sale financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganization; or

– observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

n. Impairment of assets *(continued)*

i. Impairment of investments in debt and equity securities and other receivables *(continued)*

If any such evidence exists, any impairment loss is determined and recognized as follows:

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

– For trade and other current receivables and other financial assets carried at amortized cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortized cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through the income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

– For available-for-sale financial assets, when there is an impairment, the cumulative loss, if any, that had been recognized directly in the available-for-sale financial assets reserve under equity is removed from equity and is recognized in the income statement. The amount of the cumulative loss that is recognized in the income statement is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that asset previously recognized in the income statement.

  Impairment losses recognized in the income statement in respect of equity instruments classified as available-for-sale financial assets are not reversed through the income statement. Any subsequent increase in the fair value of such assets is recognized in other comprehensive income and accumulated separately in the available-for-sale financial assets reserve under equity.

  Impairment losses in respect of debt instruments classified as available-for-sale financial assets are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognized. Reversals of impairment losses in such circumstances are recognized in the income statement.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognized in respect of trade receivables, whose recovery are considered doubtful but not remote. In this case, the impairment loss for doubtful debts is recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in the income statement.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

n. Impairment of assets *(continued)*

ii. Impairment of other 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 recognized no longer exists or may have decreased:

– property, plant and equipment;

– interests in leasehold land;

– intangible assets;

– investments in associates and jointly controlled companies;

– goodwill; and

– investments in subsidiaries (at Company level).

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount
The recoverable amount of an asset is the greater of its fair value less cost to sell and value in use. Fair value less cost 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a CGU).

– Recognition of impairment losses
An impairment loss is recognized in the income statement whenever the carrying amount of an asset, or the CGU to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then, to reduce the carrying amount of the other assets in the CGU on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses
In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not allowed to be reversed.

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

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

n. Impairment of assets *(continued)*

iii. Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange, the Group is required to prepare an interim financial report in compliance with HKAS 34 "Interim Financial Reporting", in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(n)(i) and 2(n)(ii)).

Impairment losses recognized in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognized had the impairment been assessed only at the end of the financial year to which the interim period relates.

o. Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each balance sheet date. The gain or loss on remeasurement to fair value is recognized immediately in the income statement, except where the derivatives are designated and qualify for hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 2(p)).

The full fair value of a hedging derivative is classified as non-current asset or liability when the remaining hedged item has a maturity of more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

p. Hedging

i. Fair value hedge

Where a derivative financial instrument is designated as a hedge of the fair value of a recognized asset or liability or an unrecognized firm commitment (or an identified portion of such asset, liability or firm commitment), changes in the fair value of the derivative are recorded in the income statement within "Finance Costs", together with any changes in fair value of the hedged asset or liability that are attributable to the hedged risk.

When a hedging instrument expires or is sold, terminated or exercised, or no longer meets the criteria for hedge accounting; or the Group revokes designation of the hedge relationship, the cumulative adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to the income statement over the residual period to maturity.

ii. Cash flow hedge

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognized asset or liability, or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and accumulated separately in the hedging reserve under equity. The ineffective portion of any gain or loss is recognized immediately in the income statement.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated cumulative gain or loss is removed from equity and recognized in the income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement (such as when the interest income or expense is recognized).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognized in the income statement in the same period or periods during which the hedged forecast transaction affects the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or no longer meets the criteria for hedge accounting; or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the associated cumulative gain or loss at that point remains in equity and is recognized in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to occur, the cumulative unrealized gain or loss recognized in equity is recognized immediately in the income statement.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

q. Programme costs

The costs associated with the transmission rights for showing programmes, sports events and films on the Group's television channels are recognized in the income statement on a straight-line basis over the period of transmission rights. Where contracts provide for sport rights for multiple seasons or competitions, the associated costs are recognized principally on a straight-line basis across the season or competition. Payments made in advance or in arrears of programme costs recognized are stated in the balance sheet as "Prepayments, deposits and other current assets" or "Accruals and other payables", as appropriate.

r. Inventories

Inventories consist of trading inventories, work-in-progress and consumable inventories.

Trading inventories are carried at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Work-in-progress is stated at the lower of cost, which comprises labor, materials and overheads where appropriate, and the net realizable value.

Consumable inventories, held for use in the maintenance and expansion of the Group's telecommunications systems, are stated at cost less provision for deterioration and obsolescence.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

s. Construction contracts

The accounting policy for contract revenue is set out in note 2(y)(v). When the outcome of a construction contract can be estimated reliably, contract costs are recognized as an expense by reference to the stage of completion of the contract at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable and the contract costs are recognized 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 recognized profits less recognized losses and estimated value of work performed, including progress billing, and are presented in the balance sheet as the "Gross amounts due from customers for contract work" (as an asset) or the "Gross amounts due to customers for contract work" (as a liability), as applicable. Progress billings for work performed on a contract not yet paid by customers are included in the balance sheet under "Trade receivables, net".

t. Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(n)(i)).

u. Cash and cash equivalents

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

v. Trade and other payables

Trade and other payables are initially recognized at fair value and subsequently stated at amortized cost using the effective interest method.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

w. Borrowings

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

x. Provisions and contingent liabilities

Provisions are recognized when (i) the Group or the Company has a present legal or constructive obligation arising as a result of a past event; (ii) it is probable that an outflow of economic benefits will be required to settle the obligation; and (iii) a reliable estimate can be made of the amount of the obligation. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation. The increase in provision due to the passage of time is recognized as interest expense.

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

y. Revenue recognition

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

i. Telecommunications and other services

Telecommunications services comprise the fixed line and mobile telecommunications network services, and equipment businesses mainly in Hong Kong.

Telecommunications service revenue based on usage of the Group's network and facilities is recognized when the services are rendered. Telecommunications revenue for services provided for fixed periods is recognized on a straight-line basis over the applicable fixed period.

Up-front fees received for installation of equipment and activation of customer service are deferred and recognized over the estimated customer relationship period.

Other service income is recognized when services are rendered to customers.

ii. Sales of goods

Revenue from sale of goods is recognized when goods are delivered to customers which generally coincides with the time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue is recorded after deduction of any trade discounts.

iii. Sales of properties

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

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

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

y. Revenue recognition *(continued)*

iv. Rental income from operating leases

Rental income receivable under operating leases is recognized in the income statement in equal instalments over the periods covered by the lease term. Lease incentives granted are recognized in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognized as income in the accounting period in which they are earned.

v. Contract revenue

Revenue from a fixed price contract is recognized using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract. When the outcome of a construction contract cannot be estimated reliably, revenue is recognized only to the extent that it is probable the contract costs incurred will be recoverable.

vi. Interest income

Interest income is recognized on a time-apportioned basis using the effective interest method.

vii. Commission income

Commission income is recognized when entitlement to the income is ascertained.

viii. Dividend income

Dividend income is recognized when the shareholder's right to receive payment is established.

z. 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 capitalized 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 capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is 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. Capitalization of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

Discounts or premiums relating to borrowings, ancillary costs incurred in connection with arranging borrowings, to the extent that they are regarded as adjustments to interest costs, are recognized as expenses over the period of the borrowing using the effective interest method.

aa. Income tax

i. Income tax for the year comprises current income tax and movements in deferred income tax assets and liabilities. Current income tax and movements in deferred income tax assets and liabilities are recognized in the income statement except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts are recognized in other comprehensive income or directly in equity, respectively.

ii. 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 income tax payable in respect of previous year.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

aa. Income tax *(continued)*

iii. Deferred income tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases. Deferred income tax assets also arise from unused tax losses and unused tax credits.

All deferred income tax liabilities, and all deferred income tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred income tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred income tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred income tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The amount of deferred income tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realized and the deferred income tax liability is settled. Deferred income tax assets and liabilities are not discounted.

The carrying amount of a deferred income tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

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

- in the case of current income tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

- in the case of deferred income tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred income tax liabilities or assets are expected to be settled or recovered, intend to realize the current income tax assets and settle the current income tax liabilities on a net basis or realize and settle simultaneously.

bb. Employee benefits

i. Short-term employee benefits

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

bb. Employee benefits *(continued)*

ii. Retirement benefits

The Group operates both defined benefit and defined contribution retirement schemes (including the Mandatory Provident Fund) for its employees, the assets of which are generally held in separate trustee – administered funds. The schemes are generally funded by payments from the relevant Group companies and, in some cases, employees themselves, taking account of the recommendations of independent qualified actuaries.

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

The Group's defined benefit liability recognized in the consolidated balance sheet in respect of defined benefit retirement schemes is the present value of the defined benefit obligation at the balance sheet date less the fair value of scheme assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The calculation is performed annually by independent qualified actuaries 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. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates with 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.

When the benefits of the schemes are improved, the portion of the increased benefit relating to past service by employees is recognized as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately, the expense is recognized immediately in the income statement.

In calculating the Group's defined benefit liability in respect of defined benefit retirement schemes, if any cumulative unrecognized actuarial gains and losses exceeds 10% of the greater of the present value of the defined benefit obligations and the fair value of the scheme assets, that portion is recognized in the income statement over the expected average remaining working lives of the participating employees. Otherwise, the actuarial gain or loss is not recognized.

iii. Share-based payments

The Group operates share option schemes where employees (and including directors) are granted options to acquire shares of the Company at specified exercise prices. The fair value of the employee services received in exchange for the grant of the options is recognized 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. During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years is charged or credited in the income statement for the year of the review, unless the original staff costs qualify for recognition as an asset, with a corresponding adjustment to the employee share-based compensation reserve. On vesting date, the amount recognized 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 recognized in the employee share-based compensation reserve until either the share options are exercised (when it is transferred to the share premium account) or the share options expire (when it is released directly to retained profits or deficit). Share options granted before November 7, 2002 or granted after November 7, 2002 but vested on or before December 31, 2004 are not expensed as they are not subject to the requirements of HKFRS 2. 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.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

bb. Employee benefits *(continued)*

iii. Share-based payments *(continued)*

The Group also grants shares of the Company to employees at nil consideration under its share award schemes, under which the awarded shares are either newly issued at par value (the "Subscription Scheme") or are purchased from the open market (the "Purchase Scheme"). The cost of shares purchased from the open market is recognized in equity as treasury stock. The fair value of the employee services received in exchange for the grant of shares under both schemes is recognized 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 awarded shares is measured by the quoted market price of the shares at grant date and is charged to the income statement over the respective vesting period. During the vesting period, the number of awarded shares that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years is charged or credited in the income statement for the year of the review, unless the original staff costs qualify for recognition as an asset, with a corresponding adjustment to the employee share-based compensation reserve. On vesting date, the amount recognized as staff costs is adjusted to reflect the actual number of awarded shares that vest (with a corresponding adjustment to the employee share-based compensation reserve) and the cost of awarded shares recognized in equity as treasury stock is transferred to the employee share-based compensation reserve. Shares awarded before November 7, 2002 or awarded after November 7, 2002 but vested on or before December 31, 2004 are not expensed as they are not subject to the requirements of HKFRS 2.

Shares of the Company granted to employees of the Group by the principal shareholder of the Company are accounted for in accordance with the same policy for the awarded shares under share award schemes as described above. The fair value of the shares granted by principal shareholder is measured by the quoted market price of the shares at grant date and is charged to the income statement over the respective vesting period.

iv. Termination benefits

Termination benefits are recognized only after either an agreement is in place with the appropriate employee representatives specifying the terms of redundancy and the numbers of employees affected, or, after individual employees have been advised of the specific terms.

cc. Translation of foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in HK dollars (HK$), which is the Company's functional and the Group's presentation currency.

Foreign currency 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 recognized in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined. Exchange differences arising on translation of non-monetary assets and liabilities, such as financial assets at fair value through profit or loss, are reported as part of the fair value gain or loss in the income statement. Exchange differences arising on translation of non-monetary assets and liabilities, such as available-for-sale financial assets, are included in the fair value gain or loss in the available-for-sale financial assets reserve under equity.

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 on or after January 1, 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. Goodwill arising on consolidation of a foreign operation acquired before January 1, 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in the currency translation reserve under equity.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

cc. Translation of foreign currencies *(continued)*

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, if any, are taken to other comprehensive income and accumulated separately in currency translation reserve under equity. On disposal of a foreign operation, the cumulative amount of the exchange differences recognized 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.

dd. Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

i. the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

ii. the Group and the party are subject to common control;

iii. the party is an associate of the Group or a joint venture in which the Group is a venturer;

iv. the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

v. the party is a close family member of a party referred to in (i) above or is an entity under the control, joint control or significant influence of such individuals; or

vi. the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

ee. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (the "CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group's senior executive management.

Segment revenue, expenses, results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses and segment performance include transactions between segments. Inter-segment pricing is based on similar terms as those available to other external parties for similar services. These transactions are eliminated upon consolidation.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (including property, plant and equipment, investment properties and interests in leasehold land) that are expected to be used for more than one year.

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.

Key sources of estimation uncertainty

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Notes 20, 31(a) and 38 contain information about the assumptions and their risk factors relating to goodwill impairment, defined benefit liability and financial instruments. Other key sources of estimation uncertainty are discussed below:

i. Useful lives of property, plant and equipment and intangible assets (other than goodwill)

The Group has significant property, plant and equipment and intangible assets (other than goodwill). The Group is required to estimate the useful lives of property, plant and equipment and intangible assets (other than goodwill) in order to ascertain the amount of depreciation and amortization charges for each reporting period.

The useful lives are estimated at the time of purchase of these assets after considering future technology changes, business developments and the Group's strategies. The Group performs annual reviews to assess the appropriateness of the estimated useful lives. Such review takes into account any unexpected adverse changes in circumstances or events, including declines in projected operating results, negative industry or economic trends and rapid advancement in technology. The Group extends or shortens the useful lives and/or makes impairment provisions according to the results of the review.

ii. Impairment of assets (other than investments in debt and equity securities and other receivables)

At each balance sheet date, the Group reviews internal and external sources of information to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

– property, plant and equipment;

– interests in leasehold land;

– intangible assets;

– investments in associates and jointly controlled companies;

– goodwill; and

– investments in subsidiaries (at Company level).

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment. An impairment loss is recognized in the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

The sources utilized to identify indications of impairment are often subjective in nature and the Group is required to use judgement in applying such information to its business. The Group's interpretation of this information has a direct impact on whether an impairment assessment is performed as at any given balance sheet date. Such information is particularly significant as it relates to the Group's telecommunications services and infrastructure businesses in Hong Kong.

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

Key sources of estimation uncertainty *(continued)*

iii. Revenue recognition

Telecommunications service revenue based on usage of the Group's network and facilities is recognized when the services are rendered. Telecommunications revenue for services provided for fixed periods is recognized on a straight-line basis over the respective period. In addition, up-front fees received for installation of equipment and activation of customer service are deferred and recognized over the expected customer relationship period. The Group is required to exercise considerable judgement in revenue recognition particularly in the areas of customer discounts and customer disputes. Significant changes in management estimates may result in material revenue adjustments.

During the year ended December 31, 2009, the Group re-assessed the expected customer relationship period. As a result of this re-assessment, the expected customer relationship period has been shortened. This change in accounting estimate has been accounted for prospectively from June 30, 2009. As a result, the Group's profit for the year ended December 31, 2009 increased and its net liabilities as at December 31, 2009 decreased by HK$57 million.

The Group offers certain arrangements whereby a customer can purchase telecommunications equipment together with a fixed period of telecommunications service arrangement. When such multiple-element arrangements exist, the amount recognized as revenue upon the sale of the telecommunications equipment is the fair value of the equipment in relation to the fair value of the arrangement taken as a whole. The revenue relating to the service element, which represents the fair value of the servicing arrangement in relation to the fair value of the arrangement taken as a whole, is recognized over the service period. The fair values of each element are determined based on the current market price of each of the elements when sold separately.

Where the Group is unable to determine the fair value of each of the elements in an arrangement, it uses the residual value method. Under this method, the Group determines the fair value of the delivered element by deducting the fair value of the undelivered element from the total contract consideration.

To the extent that there is a discount on the arrangement, such discount is allocated between the elements of the contract in such a manner as to reflect the fair value of the elements.

iv. Sales recognition on properties sold

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

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

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

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

Key sources of estimation uncertainty *(continued)*

v. Amount payable to the Government under the Cyberport Project Agreement

Pursuant to an agreement dated May 17, 2000 entered into with the Government of Hong Kong (the "Government") in respect of the Cyberport project (the "Cyberport Project Agreement"), the Government is entitled to receive approximately 65% of the surplus cash flow earned from the Cyberport project. The amounts paid and payable to the Government are part of the Group's costs of developing the Cyberport project.

The amount payable to the Government is a financial liability that is measured at amortized cost. Borrowing costs associated with this liability are capitalized as part of the properties under development.

The estimated cost of developing the Cyberport project, including construction costs and the amounts paid and payable to the Government, is allocated to the cost of properties sold on a systematic basis over the life of the project using a relative value approach. This approach considers the value of development costs attributable to phases for which revenue has been recognized to date relative to the total expected value of development costs for the development as a whole. The revision of estimates of these relative values during the year ended December 31, 2010 has resulted in the costs of properties sold recorded in the year ended December 31, 2010 being decreased by HK$95 million.

Under the Cyberport Project Agreement, a Development Maintenance Account (the "DMA Account") was established for the provision of funds (the "DMA Amount") for the upkeep and maintenance of certain facilities commonly available to both tenants and visitors at the commercial portion of the Cyberport project (note 19(a)). In 2004, the DMA Amount provisionally assessed at HK$500 million, had been funded jointly by the Government and the Group to the DMA Account.

The Group has been in discussions with the Government and Hong Kong Cyberport Management Company Limited ("HKCMCL") concerning the purported final assessment of the DMA Amount made by HKCMCL in December 2009 under the terms of the Cyberport Project Agreement. By that assessment, HKCMCL purported to increase the level of funding of the DMA Account from HK$500 million to approximately HK$1,700 million. On May 20, 2010, HKCMCL commenced legal proceedings against Cyber-Port Limited (an indirect wholly owned subsidiary of Pacific Century Premium Developments Limited ("PCPD"), which in turn is a 61.53% indirectly owned subsidiary of PCCW, and hereinafter "CPL") by way of originating summons (the "Originating Summons") in which it sought declarations as to its purported final assessment. On May 22, 2010, CPL and PCCW responded to the filing of the Originating Summons by commencing legal proceedings by way of writ (the "Writ Action") against HKCMCL and its affiliates, Hong Kong Cyberport Development Holdings Limited and Hong Kong Cyberport (Ancillary Development) Limited (together, the "FSI Companies"), seeking orders to quash the purported final assessment of the DMA Amount and the purported auditors' certificate issued in relation to same and damages. On September 28, 2010, upon an application by CPL and PCCW, the Court gave an order to the effect that the Originating Summons proceedings be consolidated with the Writ Action. The Court also gave orders requiring discovery by the parties.

There have been a number of interlocutory hearings in the Writ Action since then:

a. On November 25, 2010, the Court rejected an application by the FSI Companies to transfer the Writ Action into the Commercial List.

b. On January 11, 2011, the Court gave various further case management directions, including an order requiring the FSI Companies to identify their witnesses in the Writ Action.

c. On February 7, 2011, the Court part-heard an application by CPL and PCCW that two Government bureaux which are not parties to the litigation gave discovery of certain categories of documents relevant to the issues in dispute in the Writ Action. The Court adjourned the hearing and gave directions as to the filing of further evidence for the application, which has been re-listed for hearing on August 10, 2011.

No substantive judgement on the matters in dispute in the legal proceedings has been made yet. The directors have taken legal advice and sought expert opinions on various matters relevant to the claims. They are of the opinion that the provisional assessment of HK$500 million would be adequate for the purpose of the final assessment of the DMA Amount, and the liability to contribute additional funds to the DMA Account is remote.

Should the final assessment figure of DMA Amount become different from the HK$500 million which management has estimated, provision will have to be made accordingly.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

Key sources of estimation uncertainty *(continued)*

vi. Deferred income tax

While deferred income tax liabilities are provided in full on all taxable temporary differences, deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. In assessing the amount of deferred income tax assets that need to be recognized, 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 income tax regulations are enacted that would impact the timing or extent of the Group's ability to utilize the tax benefits of net operating loss carry-forwards in the future, adjustments to the recorded amount of net deferred income tax assets and income tax expense would be made.

vii. Current income tax

The Group makes a provision for current income tax based on estimated taxable income for the year. The estimated income tax liabilities are primarily computed based on the tax computations as prepared by the Group. Nevertheless, from time to time, there are cases of disagreements with the tax authorities of Hong Kong and elsewhere on the tax treatment of items included in the tax computations and certain non-routine transactions. If the Group considers it probable that these disputes or judgements will result in different tax positions, the most likely amounts of the outcome will be estimated and adjustments to the income tax expense and income tax liabilities will be made accordingly.

viii. Recognition of intangible asset – Carrier licences

In order to measure the intangible assets, HKAS 39 "Financial Instruments: Recognition and Measurement" is applied for recognition of the minimum annual fee and royalty payments as they constitute contractual obligations to deliver cash and, hence, should be considered as financial liabilities. To establish the fair value of the minimum annual fee and royalty payments for the right of use of the carrier licences, the discount rate used is an indicative incremental borrowing rate estimated by the Group. Had a different discount rate been used to determine the fair value, the Group's results of operations and financial position could be materially different.

ix. Estimated valuation of investment properties

The best evidence of fair value is current prices in an active market for similar leases and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair values estimates. In making its estimates, the Group considers both (i) information from the valuations of investment properties performed by external professional valuers by using the open market value approach and (ii) other principal assumptions including the receipt of contractual rentals, expected future market rentals and discount rates to determine the fair value of the investment properties. Had the Group used different future market rentals, discount rates and other assumptions, the fair value of the investment properties would be different and thus caused impact to the consolidated income statement. As at December 31, 2010, the fair value of the investment properties was HK$5,085 million.

x. Estimated property holding cost recoverable from the Government

The Group and the Government have been engaged in ongoing discussion throughout the year 2010 in order to determine the amount of rates and Government rent payable by the Group. Based on these on-going discussions, management has revised its estimate of the rates and Government rent expenses and recorded a corresponding reduction in operating costs of property, plant and equipment, net during the year. The discussion was finalized in January 2011 whereby the Government has revised its assessment for the relevant years and refunded the prior years' excess payments made by the Group.

xi. Recognition of fixed-mobile interconnection charge

The Office of the Telecommunications Authority of Hong Kong withdrew its regulatory guidance on the fixed-mobile interconnection charge ("FMIC") on April 27, 2009 as FMIC should be settled by commercial agreements between fixed and mobile operators without regulatory intervention. The Group continued providing to and receiving from other operators interconnection services and has stopped recognizing FMIC revenue from April 27, 2009 but has continued to provide for potential FMIC costs. In the current year, the Group has reached agreements with certain operators on the FMIC and stopped providing for FMIC costs. Excess accrued FMIC costs made were reversed.

4 RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with related parties:

In HK$ million	Note(s)	The Group 2010	2009
Telecommunications service fees, rental charges, facility management services and subcontracting charges received or receivable from a jointly controlled company	a & c	**74**	75
Telecommunications service fees and systems integration charges received or receivable from a substantial shareholder	a	**241**	169
Telecommunications service fees, outsourcing fees and rental charges paid or payable to a jointly controlled company	a & c	**524**	591
Telecommunications service fees paid or payable to a substantial shareholder	a	**161**	156
Key management compensation	b	**67**	105

a. These 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.

b. Details of key management compensation

In HK$ million	The Group 2010	2009
Salaries and other short-term employee benefits	**64**	101
Post-employment benefits	**3**	4
	67	105

c. Details of transactions with a jointly controlled company of a subsidiary (the "JV")

On April 16, 2005, the Company agreed with Telstra Corporation Limited ("Telstra") and the JV on an operating model under which the JV would operate as an outsourcer of telecommunications network services for the Group and Telstra and its subsidiaries. During the year ended December 31, 2010, the outsourcing fees paid or payable by the Group to the JV, determined on a cost plus basis, were HK$430 million (2009: HK$451 million).

d. Amounts due from/(to) related companies

Other than as specified in this note, notes 23 and 24 and a United States dollar denominated loan to the parent company of a substantial shareholder in the amount of approximately US$1 million (approximately HK$6 million) at a fixed interest rate of 4% per annum and with fixed terms of repayment up to 2010 as at December 31, 2009, balances with related parties are unsecured, non-interest bearing and have no fixed repayment terms.

5 TURNOVER

In HK$ million	The Group 2010	2009
Telecommunications and other service revenue	**19,553**	19,126
Amounts received and receivable in respect of goods sold	**2,079**	1,861
Amounts received and receivable in respect of properties sold	**1,100**	3,855
Amounts received and receivable from rental of investment properties	**230**	235
	22,962	25,077

6 SEGMENT INFORMATION

The CODM is the Group's senior executive management. The CODM reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The CODM considers the business from both geographic and product perspectives. From a product perspective, management assesses the performance of the following segments:

– Telecommunications Services ("TSS") is the leading provider of telecommunications products and services including local telephony, broadband access services, local and international data, international direct dial, sales of equipment, technical maintenance and subcontracting services and teleservices businesses.

– Mobile includes the Group's mobile telecommunications businesses in Hong Kong.

– TV & Content includes interactive pay-TV service, Internet portal multimedia entertainment platform and the Group's directories operations in Hong Kong and mainland China ("PCCW Directories").

– PCCW Solutions offers Information and Communications Technologies services and solutions in Hong Kong and mainland China.

– PCPD covers the Group's property portfolio in Hong Kong and mainland China, including the Cyberport development in Hong Kong, and elsewhere in Asia.

– Other Businesses include the Group's wireless broadband business in the United Kingdom and all corporate support functions.

The CODM assesses the performance of the operating segments based on a measure of adjusted earnings before interest, tax, depreciation and amortization ("EBITDA"). The EBITDA represents earnings before interest income, finance costs, income tax, depreciation of property, plant and equipment, amortization of land lease premium and intangible assets, gain/loss on disposal of property, plant and equipment, investment properties and interests in leasehold land, net other gains/losses, losses on property, plant and equipment, restructuring costs, impairment losses on interests in associates and jointly controlled companies and the Group's share of results of associates and jointly controlled companies.

Segment revenue, expense and segment performance include transactions between segments. Inter-segment pricing is based on similar terms as those available to other external parties for similar services. The revenue from external parties reported to the CODM is measured in a manner consistent with that in the consolidated income statement.

6 SEGMENT INFORMATION *(CONTINUED)*

Information regarding the Group's reportable segments as provided to the Group's CODM is set out below:

In HK$ million	2010							
	TSS	Mobile	TV & Content	PCCW Solutions	PCPD	Other Businesses	(Eliminations)/ Unallocated	Consolidated
REVENUE								
External revenue	16,302	1,709	1,801	1,644	1,440	66	–	22,962
Inter-segment revenue	415	–	582	464	55	–	(1,516)	–
Total revenue	16,717	1,709	2,383	2,108	1,495	66	(1,516)	22,962
RESULTS								
EBITDA	7,053	355	232	241	284	(812)	–	7,353
OTHER INFORMATION								
Capital expenditure (including property, plant and equipment, investment properties and interests in leasehold land) incurred during the year	1,316	201	128	30	65	58	49	1,847

In HK$ million	2009							
	TSS	Mobile	TV & Content	PCCW Solutions	PCPD	Other Businesses	(Eliminations)/ Unallocated	Consolidated
REVENUE								
External revenue	15,836	1,670	2,033	1,334	4,162	42	–	25,077
Inter-segment revenue	456	–	317	510	60	19	(1,362)	–
Total revenue	16,292	1,670	2,350	1,844	4,222	61	(1,362)	25,077
RESULTS								
EBITDA	7,050	265	4	209	781	(810)	–	7,499
OTHER INFORMATION								
Capital expenditure (including property, plant and equipment, investment properties and interests in leasehold land) incurred during the year	1,138	237	80	44	43	54	72	1,668

6 SEGMENT INFORMATION *(CONTINUED)*

A reconciliation of total segment EBITDA to profit before income tax is provided as follows:

In HK$ million	The Group 2010	2009
Total segment EBITDA	**7,353**	7,499
Loss on disposal of property, plant and equipment	**(45)**	–
Depreciation and amortization	**(3,800)**	(3,780)
Other gains, net	**1,217**	168
Losses on property, plant and equipment	**–**	(61)
Interest income	**27**	18
Finance costs	**(1,587)**	(1,485)
Share of results of associates and jointly controlled companies	**(82)**	(55)
Impairment loss reversed on interest in an associate	**–**	1
Restructuring costs (recognized)/reversed	**(3)**	75
Profit before income tax	**3,080**	2,380

The following table sets out information about the geographical location of the Group's revenue from external customers. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

In HK$ million	Revenue from external customers 2010	2009
Hong Kong (place of domicile)	**19,308**	22,136
Mainland China (excluding Hong Kong) and Taiwan	**1,783**	1,656
Others	**1,871**	1,285
	22,962	25,077

The total non-current assets other than financial instruments and deferred income tax assets located in Hong Kong is HK$19,208 million (2009: HK$19,492 million), and the total of these non-current assets located in other countries is HK$9,666 million (2009: HK$8,049 million).

7 OTHER GAINS, NET

In HK$ million	The Group 2010	2009
Net realized gains on disposal of available-for-sale financial assets	**10**	–
Realized gain from investment in available-for-sale financial assets	**21**	–
Net realized gains on disposal of an associate	**1**	–
Net realized gains on disposal of subsidiaries *(note 36(c))*	**–**	232
Provision for impairment of investments	**(21)**	–
Impairment loss on goodwill	**–**	(96)
Fair value gains on investment properties	**1,155**	1
Dividend income	**–**	4
Net gain on cash flow hedging instruments transferred from equity	**41**	42
Others	**10**	(15)
	1,217	168

8 LOSSES ON PROPERTY, PLANT AND EQUIPMENT

In HK$ million	The Group 2010	2009
Impairment losses on property, plant and equipment	**–**	61

In 2009, due to technology and market changes in the sectors in which the Group operates, certain of the Group's property, plant and equipment became obsolete. Accordingly, the Group recognized impairment losses of approximately HK$61 million in the consolidated income statement.

9 PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging and crediting the following:

a. Staff costs

In HK$ million	The Group 2010	2009
Retirement costs for directors	**3**	3
Retirement costs for other staff		
– pension income for defined benefit retirement schemes *(note 31(a)(v))*	**(1)**	(2)
– contributions to defined contribution retirement scheme	**223**	221
	225	222
Salaries, bonuses and other benefits	**2,365**	2,247
	2,590	2,469

9 PROFIT BEFORE INCOME TAX *(CONTINUED)*

b. Other items

In HK$ million	The Group	
	2010	2009
Crediting:		
Dividend income from		
– listed investments	**–**	4
Gross rental income	**230**	235
Less: Outgoings	**(24)**	(31)
Charging:		
Losses on property, plant and equipment	**–**	61
Impairment loss for doubtful debts	**119**	351
Provision for inventory obsolescence	**9**	6
Depreciation of property, plant and equipment	**2,678**	2,677
Operating costs of property, plant and equipment, net	**100**	334
Amortization of land lease premium		
– interests in leasehold land	**23**	22
Amortization of intangible assets	**1,099**	1,081
Cost of inventories sold	**2,056**	1,932
Cost of properties sold	**640**	2,917
Cost of sales, excluding inventories and properties sold	**7,837**	7,405
Loss on disposal of property, plant and equipment	**45**	–
Exchange losses, net	**48**	11
Less: Cash flow hedges: transferred from equity	**(54)**	(10)
Auditors' remuneration	**22**	18
Operating lease rental		
– equipment	**25**	27
– other assets (including property rentals)	**509**	561

10 FINANCE COSTS

In HK$ million	The Group	
	2010	2009
Interest paid/payable for:		
Overdrafts and bank borrowings wholly repayable within 5 years	**468**	491
Bank borrowings not wholly repayable within 5 years	**52**	–
Other borrowings wholly repayable within 5 years	**990**	792
Other borrowings not wholly repayable within 5 years	**39**	198
Notional accretion on carrier licence fee liabilities	**73**	64
Other borrowing costs	**5**	3
Cash flow hedges: transferred from equity	**1**	1
Fair value losses on derivative financial instruments on fair value hedges	**88**	–
Fair value adjustment of borrowings attributable to interest rate risk	**(80)**	–
	1,636	1,549
Interest capitalized in property, plant and equipment	**(49)**	(64)
	1,587	1,485

The capitalization rate used to determine the amount of interest eligible for capitalization for the year ranged from 6.33% to 7.03% (2009: 7.03%).

11 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Details of directors' emoluments are set out below:

a. Directors' emoluments – cash and cash equivalents paid/payable

In HK$ million	The Group 2010									
	Directors' fees		Salaries, allowances and benefits in kind		Bonuses[1]		Retirement scheme contributions		Total	
	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD
Executive directors										
Li Tzar Kai, Richard	–	–	–	–	–	–	–	–	–	–
Alexander Anthony Arena	–	–	18.75[2]	–	12.45	–	1.41	–	32.61	–
Peter Anthony Allen	–	–	2.40[2]	–	–	–	–	–	2.40	–
Lee Chi Hong, Robert	–	–	–	6.50[3]	–	–	–	0.87	–	7.37
Hui Hon Hing, Susanna[4]	–	–	2.88	0.93	–	–	0.23	0.01	3.11	0.94
Non-executive directors										
Sir David Ford	–	–	2.35	–	–	–	0.01	–	2.36	–
Lu Yimin	0.20[5]	–	–	–	–	–	–	–	0.20	–
Zuo Xunsheng	0.20[6]	–	–	–	–	–	–	–	0.20	–
Li Fushen	0.20[7]	–	–	–	–	–	–	–	0.20	–
Chung Cho Yee, Mico[8]	0.02	–	2.11	–	–	–	–	–	2.13	–
Independent non-executive directors										
Professor Chang Hsin-kang	0.20	–	–	–	–	–	–	–	0.20	–
Dr The Hon Sir David Li Kwok Po	0.20	–	–	–	–	–	–	–	0.20	–
Sir Roger Lobo	0.20	–	–	–	–	–	–	–	0.20	–
Aman Mehta	0.40[9]	–	0.66	–	–	–	–	–	1.06	–
The Hon Raymond George Hardenbergh Seitz	0.30[10]	–	0.66	–	–	–	–	–	0.96	–
Tse Sze Wing, Edmund[11]	0.20	–	–	–	–	–	–	–	0.20	–
	2.12	–	29.81	7.43	12.45	–	1.65	0.88	46.03	8.31

Notes:

1 Bonuses in respect of 2009, paid in 2010.
2 Excludes remuneration for duties performed for related companies.
3 Mr Robert Lee offered to waive the basic salary and housing benefits of HK$1.83 million (2009: HK$3.67 million).
4 Appointed as an executive director with effect from May 19, 2010.
5 Fee receivable as a non-executive director in 2010 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Lu Yimin and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
6 Fee receivable as a non-executive director in 2010 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Zuo Xunsheng and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
7 Fee receivable as a non-executive director in 2010 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Li Fushen and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
8 Re-designated from an executive director to a non-executive director with effect from May 19, 2010.
9 Includes HK$100,000 fee as Chairman of Nomination Committee and HK$100,000 fee as Chairman of Audit Committee.
10 Includes HK$100,000 fee as Chairman of Remuneration Committee.
11 Re-designated from an independent non-executive director to a non-executive director with effect from March 22, 2011.

11 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(CONTINUED)*

a. Directors' emoluments – cash and cash equivalents paid/payable *(continued)*

In HK$ million	The Group 2009									
	Directors' fees		Salaries, allowances and benefits in kind		Bonuses[1]		Retirement scheme contributions		Total	
	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD
Executive directors										
Li Tzar Kai, Richard	–	–	–	–	–	–	–	–	–	–
Alexander Anthony Arena	–	–	18.75 [2]	–	5.00	–	1.41	–	25.16	–
Peter Anthony Allen	–	–	2.40 [2]	–	–	–	–	–	2.40	–
Chung Cho Yee, Mico	–	–	2.40 [2]	–	–	4.90 [3]	–	–	2.40	4.90
Lee Chi Hong, Robert	–	–	–	7.33 [4]	–	36.80 [5]	–	1.13	–	45.26
Non-executive directors										
Sir David Ford	–	–	2.35	–	0.05	–	0.17	–	2.57	–
Lu Yimin	0.20 [6]	–	–	–	–	–	–	–	0.20	–
Zuo Xunsheng	0.20 [7]	–	–	–	–	–	–	–	0.20	–
Li Fushen	0.20 [8]	–	–	–	–	–	–	–	0.20	–
Independent non-executive directors										
Professor Chang Hsin-kang	0.20	–	–	–	–	–	–	–	0.20	–
Dr The Hon Sir David Li Kwok Po	0.20	–	–	–	–	–	–	–	0.20	–
Sir Roger Lobo	0.20	–	–	–	–	–	–	–	0.20	–
Aman Mehta	0.40 [9]	–	0.49	–	–	–	–	–	0.89	–
The Hon Raymond George Hardenbergh Seitz	0.30 [10]	–	0.44	–	–	–	–	–	0.74	–
Tse Sze Wing, Edmund[11]	0.06	–	–	–	–	–	–	–	0.06	–
	1.96	–	26.83	7.33	5.05	41.70	1.58	1.13	35.42	50.16

Notes:

1 Bonuses in respect of 2008 and 2009, paid in 2009.
2 Excludes remuneration for duties performed for related companies.
3 Bonus paid by a wholly owned subsidiary of PCPD.
4 Remunerated by a wholly owned subsidiary of PCPD. Mr Robert Lee offered to waive the basic salary and housing benefits of HK$3.67 million (2008: nil).
5 The bonus payment was calculated in accordance with contractual term as stated in his employment contract.
6 Fee receivable as a non-executive director in 2009 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Lu Yimin and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
7 Fee receivable as a non-executive director in 2009 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Zuo Xunsheng and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
8 Fee receivable as a non-executive director in 2009 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Li Fushen and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
9 Includes HK$100,000 fee as Chairman of Nomination Committee and HK$100,000 fee as Chairman of Audit Committee.
10 Includes HK$100,000 fee as Chairman of Remuneration Committee.
11 Appointed as an independent non-executive director with effect from September 10, 2009.

11 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(CONTINUED)*

b. Individuals with highest emoluments

i. Of the five individuals with the highest emoluments, three (2009: three) are directors of the Company, including the individual who was appointed as a director on May 19, 2010, details of their emoluments are disclosed in note 11(a).

The emoluments in respect of the two non-director individuals, aggregated with the emoluments of a non-director individual who was appointed as a director on May 19, 2010 for the period from January 1, 2010 to May 18, 2010, in 2010 and 2009 were as follows:

In HK$ million	The Group	
	2010	2009
Salaries, allowances and benefits in kind	**5.51**	7.62
Bonuses	**16.86**	10.61
Retirement scheme contributions	**0.44**	0.69
	22.81	18.92

ii. The emoluments of the two (2009: two) non-director individuals and the individual who was appointed as a director on May 19, 2010 whose emoluments as a non-director for the period from January 1, 2010 to May 18, 2010, are within the following emolument ranges:

In HK$ million	The Group Number of individuals	
	2010	2009
HK$5,000,001 – HK$5,500,000	**1**	–
HK$8,000,001 – HK$8,500,000	**1**	1
HK$9,000,001 – HK$9,500,000	**1**	–
HK$10,500,001 – HK$11,000,000	**–**	1
	3	2

12 INCOME TAX

a. Income tax in the consolidated income statement represents:

In HK$ million	The Group	
	2010	2009
Hong Kong profits tax		
– provision for current year	**101**	233
– over provision in respect of prior years	**(169)**	(169)
Overseas tax		
– provision for current year	**49**	44
– over provision in respect of prior years	**(35)**	(73)
Movement of deferred income tax *(note 34(a))*	**810**	550
	756	585

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits for the year.

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

12 INCOME TAX *(CONTINUED)*

b. Reconciliation between income tax expense and accounting profit at applicable tax rate:

In HK$ million	The Group 2010	2009
Profit before income tax	**3,080**	2,380
Notional tax on profit before income tax, calculated at applicable tax rate	**508**	393
Effect of different tax rates of subsidiaries operating overseas	**115**	–
Income not subject to tax	**(7)**	(7)
Expenses not deductible for tax purposes	**166**	162
Tax losses not recognized	**139**	310
Over provision in prior years, net	**(204)**	(242)
Utilization of previously unrecognized tax losses	**(24)**	(32)
Recognition of previously unrecognized tax losses	**–**	(52)
Loss not deductible for associates and jointly controlled companies	**14**	9
Current tax provision of overseas operations	**49**	44
Income tax expense	**756**	585

13 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Profit of HK$1,949 million (2009: HK$22 million) attributable to equity holders of the Company was dealt with in the financial statements of the Company.

14 DIVIDENDS

In HK$ million	2010	2009
Interim dividend declared and paid in respect of current year of 5.1 HK cents per ordinary share (2009: nil)	**370**	–
Final dividend declared in respect of previous financial year, approved and paid during the year of 13.3 HK cents per ordinary share (2009: nil)	**901**	–
Special dividend declared and paid during the year – nil (2009: 130 HK cents per ordinary share)	**–**	8,804
	1,271	8,804
Final dividend proposed after the balance sheet date of 10.2 HK cents (2009: 13.3 HK cents) per ordinary share	**742**	901

The final dividend proposed after the balance sheet date for 2010 has not been recognized as a liability as at the balance sheet date.

15 EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the following data:

	2010	2009
Earnings (in HK$ million)		
Earnings for the purpose of basic and diluted earnings per share	**1,926**	1,506
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**6,940,787,805**	6,772,294,654
Effect of the Company's share award schemes	**–**	2,519,109
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**6,940,787,805**	6,774,813,763

16 PROPERTY, PLANT AND EQUIPMENT

In HK$ million	The Group					
	2010					
	Land and buildings	**Exchange equipment**	**Transmission plant**	**Other plant and equipment**	**Projects under construction**	**Total**
Cost						
Beginning of year	1,263	12,548	14,256	10,745	1,009	39,821
Additions	10	538	426	353	520	1,847
Additions through acquisition of subsidiaries	–	–	–	1	–	1
Transfers	–	585	105	117	(966)	(159)
Disposals	(2)	(660)	(386)	(152)	–	(1,200)
Exchange differences	9	121	99	13	–	242
End of year	1,280	13,132	14,500	11,077	563	40,552
Accumulated depreciation and impairment						
Beginning of year	268	8,841	6,769	7,636	7	23,521
Charge for the year	47	1,014	863	754	–	2,678
Transfers	–	(51)	–	–	–	(51)
Disposals	(1)	(623)	(380)	(145)	–	(1,149)
Exchange differences	2	27	67	5	–	101
End of year	316	9,208	7,319	8,250	7	25,100
Net book value						
End of year	964	3,924	7,181	2,827	556	15,452
Beginning of year	995	3,707	7,487	3,109	1,002	16,300

16 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

In HK$ million	The Group 2009					
	Land and buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	Total
Cost						
Beginning of year	1,243	11,639	12,843	9,986	2,492	38,203
Additions	–	483	560	490	135	1,668
Additions through acquisition of subsidiaries	–	–	–	40	–	40
Transfers	23	643	569	429	(1,641)	23
Disposals	–	(233)	(31)	(212)	–	(476)
Exchange differences	(3)	16	315	12	23	363
End of year	1,263	12,548	14,256	10,745	1,009	39,821
Accumulated depreciation and impairment						
Beginning of year	222	8,016	5,868	7,005	–	21,111
Charge for the year	46	1,019	801	811	–	2,677
Impairment losses	–	29	10	21	1	61
Disposals	–	(232)	(30)	(207)	–	(469)
Exchange differences	–	9	120	6	6	141
End of year	268	8,841	6,769	7,636	7	23,521
Net book value						
End of year	995	3,707	7,487	3,109	1,002	16,300
Beginning of year	1,021	3,623	6,975	2,981	2,492	17,092

Certain property, plant and equipment with an aggregate carrying value of approximately HK$72 million were pledged as security for certain bank borrowings of the Group as at December 31, 2010 (2009: HK$77 million). Please refer to note 41 for details of the Group's banking facilities.

16 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

The carrying amount of land and buildings of the Group is analyzed as follows:

In HK$ million	The Group	
	2010	2009
Held in Hong Kong		
On long-term lease (over 50 years)	**102**	106
On medium-term lease (10–50 years)	**756**	791
Held outside Hong Kong		
Freehold	**68**	57
Leasehold		
On long-term lease (over 50 years)	**1**	1
On medium-term lease (10–50 years)	**37**	40
	964	995

In HK$ million	The Company **2010** **Other plant and equipment**
Cost	
Beginning and end of year	**2**
Accumulated depreciation and impairment	
Beginning and end of year	**2**
Net book value	
Beginning and end of year	**–**

In HK$ million	The Company 2009 Other plant and equipment
Cost	
Beginning and end of year	2
Accumulated depreciation and impairment	
Beginning and end of year	2
Net book value	
Beginning and end of year	–

17 INVESTMENT PROPERTIES

In HK$ million	The Group 2010	2009
Beginning of year	**3,794**	3,785
Transfer from properties under development	–	27
Transfer to land and buildings	–	(23)
Transfer to interests in leasehold land	–	(4)
Exchange differences	**136**	8
Fair value gains	**1,155**	1
End of year	**5,085**	3,794

The majority of the investment properties are held outside Hong Kong and they were revalued as at December 31, 2010 by an independent valuer, who is a fellow of the Royal Institution of Chartered Surveyors. The basis of valuation for these investment properties was open market value.

In the consolidated income statement, cost of sales includes HK$24 million (2009: HK$27 million) direct operating expenses that generate rental income while HK$11 million (2009: HK$12 million) direct operating expenses relating to investment properties that were unlet.

The carrying amount of investment properties of the Group is analyzed as follows:

In HK$ million	The Group 2010	2009
Held in Hong Kong		
On medium-term lease (10–50 years)	**12**	7
Held outside Hong Kong		
On long-term lease (over 50 years)	**913**	749
On medium-term lease (10–50 years)	**4,160**	3,038
	5,085	3,794

The Group leases out properties under operating leases. Majority of the leases typically run for a period of 2 to 15 years. None of the leases include contingent rentals.

As at December 31, 2010, the total future minimum lease payments in respect of investment properties under non-cancellable operating leases are receivable as follows:

In HK$ million	The Group 2010	2009
Within 1 year	**236**	195
After 1 year but within 5 years	**361**	172
After 5 years	**103**	26
	700	393

Investment properties with a carrying value of approximately HK$5,074 million were pledged as security for certain bank borrowings of the Group as at December 31, 2010 (2009: HK$3,787 million). Please refer to note 41 for details of the Group's banking facilities.

18 INTERESTS IN LEASEHOLD LAND

In HK$ million	The Group 2010	2009
Cost		
Beginning of year	**823**	819
Transfer from investment properties	**–**	4
End of year	**823**	823
Accumulated amortization		
Beginning of year	**248**	226
Charge for the year	**23**	22
End of year	**271**	248
Net book value		
End of year	**552**	575
Beginning of year	**575**	593

The carrying amount of interests in leasehold land of the Group is analyzed as follows:

In HK$ million	The Group 2010	2009
Held in Hong Kong		
On long-term lease (over 50 years)	**87**	90
On medium-term lease (10–50 years)	**455**	475
Held outside Hong Kong		
On medium-term lease (10–50 years)	**10**	10
	552	575

As at December 31, 2010, there was no leasehold land included in properties under development (2009: nil).

19 PROPERTIES HELD FOR/UNDER DEVELOPMENT/FOR SALE

In HK$ million	The Group 2010	2009
Properties under development *(note a)*	**428**	356
Properties held for development *(note b)*	**624**	548
	1,052	904
Less: Properties held for/under development classified as non-current assets	**(1,052)**	(904)
Properties under development classified as current assets	**–**	–
Properties for sale classified as current assets *(note a)*	**772**	698
	772	698

a. Pursuant to the Cyberport Project Agreement, the Group was granted an exclusive right and obligation to design, develop, construct and market the Cyberport project at Telegraph Bay on the Hong Kong Island. The Cyberport project consists of commercial and residential portions. The completed commercial portion was transferred to the Government at no consideration. The associated costs incurred have formed part of the development costs of the residential portion. The construction of residential portion of the Cyberport project was completed in November 2008.

b. Properties held for development represent freehold land in Thailand, which the Group intends for future development projects.

20 GOODWILL

In HK$ million	The Group 2010	2009
Cost		
Beginning of year	**3,262**	3,070
Acquisition of subsidiaries	**55**	191
Addition upon finalization of contingent consideration	**12**	–
Exchange differences	**7**	1
End of year	**3,336**	3,262
Accumulated impairment		
Beginning of year	**166**	70
Impairment loss	**–**	96
End of year	**166**	166
Carrying amount		
End of year	**3,170**	3,096
Beginning of year	**3,096**	3,000

20 GOODWILL *(CONTINUED)*

Impairment tests for CGUs containing goodwill

Goodwill is allocated to the Group's CGUs identified according to operating segment as follows:

In HK$ million	The Group **2010**	2009
TSS		
PCCW Global	**585**	585
IP BPO Holdings Pte. Ltd. and its subsidiaries	**204**	189
	789	774
Mobile	**1,939**	1,939
TV & Content	**162**	162
PCCW Solutions	**126**	126
PCPD	**91**	91
Others		
802 Limited and 802 Global Limited	**59**	–
Others	**4**	4
	63	4
Total	**3,170**	3,096

The goodwill of HK$162 million for TV & Content was previously allocated to a CGU of PCCW Directories. For the year ended December 31, 2010, management considered PCCW Directories to be part of the TV & Content for the purpose of identifying CGU and thus the HK$162 million goodwill for PCCW Directories was re-allocated to the CGU of TV & Content.

The recoverable amounts of the CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The terminal growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value-in-use calculations:

		2010	
	Gross margin	**Terminal growth rate**	**Discount rate**
PCCW Global	**18.7%**	**3%**	**9%**
Mobile	**70.5%**	**1%**	**13%**
TV & Content	**50.7%**	**2%**	**16%**
PCCW Solutions	**32.9%**	**2%**	**12%**

These assumptions have been used for the analysis of each CGU within the operating segment.

There was no indication of impairment arising from the review on goodwill as at October 31, 2010.

Management determined budgeted gross margin based on past performance and its expectations for market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

The impairment losses recognized during the year ended December 31, 2009 related to the property development and ski operations of PCPD. As the recoverable amounts of these CGUs are less than the goodwill carrying amount, impairment losses are recognized and included in "Other gains, net" in the consolidated income statement.

21 INTANGIBLE ASSETS

In HK$ million	The Group 2010						
	Trademarks	**Content licence**	**Wireless broadband licences**	**Carrier licences**	**Customer acquisition costs**	**Others**	**Total**
Cost							
Beginning of year	**1,518**	**375**	**180**	**207**	**1,503**	**12**	**3,795**
Additions through acquisition of subsidiaries	**–**	**–**	**–**	**–**	**–**	**2**	**2**
Additions	**–**	**–**	**153**	**545**	**1,058**	**1**	**1,757**
Write-off	**–**	**–**	**–**	**–**	**(941)**	**–**	**(941)**
Exchange differences	**–**	**–**	**(6)**	**–**	**2**	**–**	**(4)**
End of year	**1,518**	**375**	**327**	**752**	**1,622**	**15**	**4,609**
Accumulated amortization and impairment							
Beginning of year	**711**	**375**	**115**	**54**	**804**	**8**	**2,067**
Charge for the year *(note a)*	**76**	**–**	**20**	**43**	**958**	**2**	**1,099**
Write-off	**–**	**–**	**–**	**–**	**(941)**	**–**	**(941)**
Exchange differences	**–**	**–**	**(4)**	**–**	**–**	**–**	**(4)**
End of year	**787**	**375**	**131**	**97**	**821**	**10**	**2,221**
Net book value							
End of year	**731**	**–**	**196**	**655**	**801**	**5**	**2,388**
Beginning of year	**807**	**–**	**65**	**153**	**699**	**4**	**1,728**

In HK$ million	The Group 2009						
	Trademarks	Content licence	Wireless broadband licences	Carrier licences	Customer acquisition costs	Others	Total
Cost							
Beginning of year	1,518	375	163	191	1,487	9	3,743
Additions through acquisition of subsidiaries	–	–	–	–	–	3	3
Additions	–	–	–	16	897	–	913
Write-off	–	–	–	–	(882)	–	(882)
Exchange differences	–	–	17	–	1	–	18
End of year	1,518	375	180	207	1,503	12	3,795
Accumulated amortization and impairment							
Beginning of year	635	375	88	34	718	8	1,858
Charge for the year *(note a)*	76	–	17	20	968	–	1,081
Write-off	–	–	–	–	(882)	–	(882)
Exchange differences	–	–	10	–	–	–	10
End of year	711	375	115	54	804	8	2,067
Net book value							
End of year	807	–	65	153	699	4	1,728
Beginning of year	883	–	75	157	769	1	1,885

a. The amortization charge for the year is included in “General and administrative expenses” in the consolidated income statement.

22 INVESTMENTS IN SUBSIDIARIES

In HK$ million	The Company 2010	2009
Unlisted shares, at cost	**130,780**	130,780
Capital contribution in respect of employee share-based compensation	**283**	283
	131,063	131,063
Less: Provision for impairment in value	**(118,974)**	(118,974)
	12,089	12,089

The provision for impairment in value of HK$118,974 million (2009: HK$118,974 million) relates to certain subsidiaries of the Company which hold the Group's investments in subsidiaries, associates, jointly controlled companies, debt and equity securities.

Dividends from the PRC entities accounted for as subsidiaries will be declared based on the profits in the statutory financial statements of these PRC entities which are prepared using accounting principles generally accepted in the PRC. Such profits are different from the amounts reported under HKFRSs.

During the year, the Company entered into transactions with certain subsidiaries in the ordinary course of business. Details of the amounts due from subsidiaries are as follows:

a. Amounts due from subsidiaries

In HK$ million	The Company 2010	2009
Amounts due from subsidiaries	**60,102**	58,426
Less: Provision for impairment	**(41,840)**	(41,840)
	18,262	16,586

Amounts due from subsidiaries are unsecured, non-interest bearing and repayable on demand.

As at December 31, 2010, the Group has financed the operations of certain of its PRC entities accounted for as subsidiaries in the form of shareholder's loans amounting to approximately US$111 million (2009: US$111 million) which have not been registered with the State Administration of Foreign Exchange. As a result, remittances in foreign currency of these amounts outside the PRC may be restricted.

22 INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

As at December 31, 2010, particulars of the principal subsidiaries of the Company are as follows:

Company name	Place of incorporation/ operations	Principal activities	Nominal value of issued capital/ registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly
HKT Group Holdings Limited ("HKTGH")	Cayman Islands	Investment holding	US$636,000,001	–	100%
Hong Kong Telecommunications (HKT) Limited ("HKT")	Hong Kong	Provision of telecommunications services	HK$2,488,200,001	–	100%
Hong Kong Telecommunications HKT (CI) Limited	Cayman Islands	Investment holding	US$2	–	100%
PCCW-HKT Limited	Hong Kong	Investment holding	HK$6,092,100,052	–	100%
HKT Media Holdings Limited	Cayman Islands	Investment holding	US$2	–	100%
HKT Solutions Holdings Limited	Cayman Islands	Investment holding	US$2	–	100%
PCCW-HKT Business Services Limited	Hong Kong	Provision of business customer premises equipment and ancillary business services	HK$2	–	100%
PCCW-HKT Technical Services Limited	Hong Kong	Provision of technical support services, electronics and communications engineering, products and solutions	HK$700,002	–	100%
PCCW Mobile HK Limited	Hong Kong	Provision of mobile services, and sales of mobile phones and accessories	HK$1,254,000,100 (HK$100 ordinary shares, and HK$1,254,000,000 non-voting deferred shares)	–	100%
PCCW Media Limited	Hong Kong	Provision of pay television programme services, interactive multimedia services, the sale of advertising in various telephone directories, the publishing of those directories in Hong Kong and the sale of advertising on the Internet	HK$3,500,000,102 (HK$3,500,000,097 ordinary shares, HK$1 "A" Class share and HK$4 "B" Class shares)	–	100%
PCCW Productions Limited	Hong Kong	Production of content for different media	HK$2	–	100%
PCCW Teleservices (Hong Kong) Limited	Hong Kong	Provision of customer relationship management and customer contact management solutions and services	HK$12	–	100%
PCCW Teleservices Operations (Hong Kong) Limited	Hong Kong	Provision of customer relationship management and customer contact management solutions and services	HK$2	–	100%
PCCW Customer Management Technology and Services (Guangzhou) Limited [2, 3]	The PRC	Customer service and consultancy	HK$53,803,000	–	100%
PCCW (Macau), Limitada	Macau	Selling customer premises equipment and related solutions, conducting systems integration projects and providing outsourced call center services	MOP2,000,000	–	75%
Interactive Teleservices Corporation (now known as PCCW Teleservices (US), Inc.)	Nebraska, U.S.A.	Telemarketing and direct marketing services	US$1,169	–	85%
PCCW Global (HK) Limited	Hong Kong	Provision of satellite-based and network-based telecommunications services	HK$10	–	100%

(Amount expressed in Hong Kong dollars unless otherwise stated)

22 INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

Company name	Place of incorporation/ operations	Principal activities	Nominal value of issued capital/ registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly
PCCW Global Limited	Hong Kong/ Dubai Airport Free Zone	Provision of network-based telecommunications services	HK$2	–	100%
PCCW Global, Inc.	Delaware, U.S.A.	Supply of broadband Internet access solutions and web services	US$18.01	–	100%
PCCW Global (Singapore) Pte. Ltd.	Singapore	Telecommunication solutions related services	S$172,124,441.71	–	100%
HKT Global (Singapore) Pte. Ltd.	Singapore	Provision of telecommunications solutions related services	S$60,956,485.64	–	100%
PCCW Global (UK) Limited	United Kingdom	Provision of telecommunication solution resale services to customers and the provision of sales and marketing services to group companies	GBP1	–	100%
PCCW (Beijing) Limited[3]	The PRC	Systems integration, consulting and informatization project	US$10,250,000	–	100%
Unihub China Information Technology Company Limited[1]	The PRC	Selling of hardware and software and information system consulting services	RMB200,000,000	–	38.2%
PCCW Solutions Limited	Hong Kong	Provision of computer services and IP/IT related value-added services to business customers	HK$1,201	–	100%
PCCW Solutions (Guangzhou) Limited [2, 3]	The PRC	Systems integration and technology consultancy	HK$12,600,000	–	100%
PCCW Business eSolutions Limited	Hong Kong	Provision of IP/IT related value-added services to business customers	HK$2	–	100%
PCCW Powerbase Data Center Services (HK) Limited	Hong Kong	Provision of data center services	HK$2	–	100%
Power Logistics Limited	Hong Kong	Provision of logistics services	HK$100,000	–	100%
Pacific Century Premium Developments Limited	Bermuda/ Hong Kong	Investment holding	HK$240,745,987	–	61.53%
Cyber-Port Limited	Hong Kong	Property development	HK$2	–	61.53%
Beijing Jing Wei House and Land Estate Development Co., Ltd.[2]	The PRC	Property development	US$100,000,000	–	61.53%
Talent Master Investments Limited	British Virgin Islands/ Hong Kong	Property development	US$1	–	61.53%
Nihon Harmony Resorts KK	Japan	Ski operation	JPY405,000,000	–	61.53%
UK Broadband Limited	United Kingdom	Public fixed wireless access licence businesses	GBP1	–	100%

Certain subsidiaries which do not materially affect the results or financial position of the Group are not included.

Notes:
1 Represents a sino-foreign equity joint venture.
2 Represents a wholly foreign owned enterprise.
3 Unofficial company name.

23 INTEREST IN ASSOCIATES

In HK$ million	The Group 2010	2009
Share of net assets of associates	**292**	248
Loans due from associates	**78**	78
Amount due from an associate	**34**	34
	404	360
Provision for impairment	**(171)**	(171)
	233	189
Investments at cost, unlisted shares	**551**	812

Balances with associates are unsecured, non-interest bearing and have no fixed terms of repayment.

As at December 31, 2010, particulars of the principal associates of the Group are as follows:

Company name	Place of incorporation	Principal activities	Nominal value of issued capital/ registered capital	Interest held by the Company Directly	Indirectly
Abacus Distribution Systems (Hong Kong) Limited	Hong Kong	Provision of computer reservation systems and travel related services	HK$15,600,000	–	37.04%
Petro-CyberWorks Information Technology Company Limited*	The PRC	Design and development of Enterprise Resource Planning systems, and customer relationship management systems	RMB50,000,000	–	45%

* Unofficial company name

Summarized unaudited financial information of the associates of the Group is as follows:

In HK$ million	2010	2009
Total assets	**1,182**	877
Total liabilities	**(651)**	(357)
Turnover	**1,280**	1,022
Profit after income tax	**107**	204

During the year ended December 31, 2010, the Group did not have any unrecognized share of losses of associates (2009: nil). As at December 31, 2010, the accumulated share of losses of the associates unrecognized by the Group was nil (2009: nil).

24 INTEREST IN JOINTLY CONTROLLED COMPANIES

In HK$ million	The Group 2010	2009
Share of net assets of jointly controlled companies	**3,055**	3,093
Loans due from jointly controlled companies	**268**	267
Amounts due from jointly controlled companies	**23**	23
	3,346	3,383
Provision for impairment	**(2,869)**	(2,869)
	477	514
Investments at cost, unlisted shares	**3,637**	3,546

Balances with jointly controlled companies are unsecured, non-interest bearing and have no fixed terms of repayment except that the loan due from a jointly controlled company of HK$260 million (2009: HK$259 million) bears interests at HIBOR plus 3% per annum.

As at December 31, 2010, particulars of the principal jointly controlled companies of the Group are as follows:

Company name	Place of incorporation	Principal activities	Nominal value of issued capital/ registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly
Reach Ltd.	Bermuda	Provision of international telecommunication services	US$5,890,000,000	–	50%
China Netcom Broadband Corporation Limited	The PRC	Provision of telecommunication services and IPTV services	RMB644,518,697	–	50%
Genius Brand Limited	Hong Kong	Provision of mobile telecommunications services in Hong Kong	HK$10,000	–	50%

Summarized unaudited financial information of the Group's interest in jointly controlled companies is as follows:

In HK$ million	2010	2009
Non-current assets	**1,366**	1,443
Current assets	**518**	541
Total assets	**1,884**	1,984
Non-current liabilities	**(1,673)**	(1,616)
Current liabilities	**(723)**	(758)
Net liabilities	**(512)**	(390)
Non-controlling interests	**(226)**	(217)
Equity attributable to equity holders of the company	**(738)**	(607)
Turnover	**2,030**	1,998
Expenses	**(2,147)**	(2,139)
Loss before income tax	**(117)**	(141)
Income tax	**(4)**	(4)
Loss after income tax	**(121)**	(145)
Non-controlling interests	**(11)**	(8)
Loss for the year attributable to equity holders of the company	**(132)**	(153)

25 AVAILABLE-FOR-SALE FINANCIAL ASSETS

In HK$ million	The Group 2010	2009
Beginning of year	**325**	244
Additions	**28**	–
Return of investment	**(64)**	–
Disposals	**(14)**	–
Net gains transfer to equity	**27**	81
Impairment loss recognized	**(21)**	–
End of year	**281**	325

In HK$ million	The Group 2010	2009
Listed equity securities – overseas	**56**	59
Unlisted equity securities	**225**	266
	281	325
Market value of listed equity securities	**56**	59

As at December 31, 2010, the Group's equity securities were individually reviewed for impairment by management. Consequently, provision for impairment of HK$21 million (2009: nil) was recognized in the consolidated income statement for the year ended December 31, 2010. The Group does not hold any collateral over these balances.

During the year, available-for-sale financial assets with a carrying value of approximately HK$14 million (2009: nil) were sold and there is a transfer from equity on disposal of HK$10 million (2009: nil). As a result, a realized gain of approximately HK$10 million (2009: nil) was recognized and included in "Other gains, net" in the consolidated income statement.

No available-for-sale financial assets were pledged as security for bank borrowings of the Group as at December 31, 2010 (2009: nil).

26 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.

b. Restricted cash

Pursuant to the Cyberport Project Agreement, the Group has a restricted cash balance of approximately HK$2,245 million as at December 31, 2010 (2009: HK$936 million) held in specific bank accounts. The uses of the funds are specified in the Cyberport Project Agreement.

In addition, the Company has set aside a total cash balance of approximately HK$32 million as at December 31, 2010 (2009: HK$52 million) in connection with the release of undertakings in relation to the capital reduction of the Company. Please see note 33 for details.

As at December 31, 2010, the remaining balance of HK$4 million (2009: HK$13 million) represented amount held on behalf of property owners whose properties are managed by the Group. The uses of the funds are specified in the agreements between the owners and the Group.

26 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

c. Prepayments, deposits and other current assets

Included in prepayments, deposits and other current assets were prepaid programme costs of approximately HK$122 million as at December 31, 2010 (2009: HK$146 million).

d. Inventories

In HK$ million	The Group	
	2010	2009
Work-in-progress	**704**	715
Finished goods	**163**	232
Consumable inventories	**90**	45
	957	992

e. Trade receivables, net

In HK$ million	The Group	
	2010	2009
Trade receivables *(note i)*	**2,735**	2,720
Less: Impairment loss for doubtful debts *(note ii)*	**(206)**	(302)
Trade receivables, net	**2,529**	2,418

i. Aging analysis of trade receivables

In HK$ million	The Group	
	2010	2009
0 – 30 days	**1,464**	1,534
31 – 60 days	**308**	321
61 – 90 days	**185**	174
91 – 120 days	**96**	108
Over 120 days	**682**	583
	2,735	2,720

26 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

e. Trade receivables, net *(continued)*

ii. Impairment loss for doubtful debts

The movement in the provision for doubtful debts during the year, including both specific and collective loss components, is as follows:

In HK$ million	The Group	
	2010	2009
Beginning of year	**302**	327
Impairment loss recognized	**119**	351
Uncollectible amounts written off	**(215)**	(376)
End of year	**206**	302

As at December 31, 2010, the Group's trade receivables of HK$154 million (2009: HK$205 million) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific provision for doubtful debts of HK$154 million (2009: HK$205 million) was recognized. The Group does not hold any collateral over these balances.

iii. Trade receivables that are not impaired

The aging analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

In HK$ million	The Group	
	2010	2009
Neither past due nor impaired	**1,278**	1,222
0 – 30 days past due	**417**	445
31 – 60 days past due	**164**	186
61 – 90 days past due	**129**	123
Over 90 days past due	**541**	442
Past due but not impaired	**1,251**	1,196
	2,529	2,418

Trade receivables that were neither past due nor impaired relates to a wide range of customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to customers that have a good track record with the Group or a sound credit quality. Based on past experience and regular credit risk assessment performed on all significant outstanding trade receivables, management believes that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Certain trade receivables with an aggregate carrying value of approximately HK$44 million were pledged as security for certain bank borrowings of the Group as at December 31, 2010 (2009: HK$49 million). Please refer to note 41 for details of the Group's banking facilities.

26 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

f. Short-term borrowings

In HK$ million	The Group 2010	The Group 2009	The Company 2010	The Company 2009
US$1,000 million 8% guaranteed notes due 2011 *(note i)*	**7,772**	–	**–**	–
Bank borrowings	**28**	246	**–**	200
	7,800	246	**–**	200
Secured	**28**	46	**–**	–
Unsecured	**7,772**	200	**–**	200

i. US$1,000 million 8% guaranteed notes due 2011

In November 2001, PCCW-HKT Capital Limited, an indirect wholly-owned subsidiary of the Company, issued US$1,000 million 7.75% guaranteed notes due November 2011 (the "Notes due 2011"). The interest rate payable on the Notes due 2011 will be subject to adjustment from time to time if the relevant rating agencies downgrade the rating ascribed to the Notes due 2011 below a pre-agreed level. The interest rate payable on the Notes due 2011 has been adjusted to 8% based on the current ratings.

The Notes due 2011 are unconditionally and irrevocably guaranteed by PCCW-HKT Telephone Limited ("HKTC"), HKTGH and HKT and will rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC, HKTGH and HKT.

Please refer to note 41 for details of the Group's banking facilities.

g. Trade payables

The aging analysis of trade payables is set out below:

In HK$ million	The Group 2010	The Group 2009
0 – 30 days	**901**	927
31 – 60 days	**184**	111
61 – 90 days	**30**	44
91 – 120 days	**15**	40
Over 120 days	**575**	523
	1,705	1,645

27 LONG-TERM BORROWINGS

In HK$ million	The Group 2010	2009
Repayable within a period		
– over one year, but not exceeding two years	**12**	19,233
– over two years, but not exceeding five years	**18,334**	11,586
– over five years	**8,695**	3,848
	27,041	34,667
Representing:		
US$1,000 million 8% guaranteed notes due 2011 *(note a)*	**–**	7,736
US$500 million 6% guaranteed notes due 2013 *(note b)*	**3,879**	3,862
US$500 million 5.25% guaranteed notes due 2015 *(note c)*	**3,866**	3,848
US$500 million 4.25% guaranteed notes due 2016 *(note d)*	**3,773**	–
Bank borrowings	**15,523**	19,221
	27,041	34,667
Secured *(note e)*	**12**	11
Unsecured	**27,029**	34,656

a. US$1,000 million 8% guaranteed notes due 2011

The notes were classified as short-term borrowings as at December 31, 2010. Please refer to note 26(f) for more details.

b. US$500 million 6% guaranteed notes due 2013

On July 17, 2003, PCCW-HKT Capital No.2 Limited, an indirect wholly-owned subsidiary of the Company, issued US$500 million 6% guaranteed notes due 2013 which are listed on the Luxembourg Stock Exchange. The notes are irrevocably and unconditionally guaranteed by HKTC, HKTGH and HKT and will rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC, HKTGH and HKT.

c. US$500 million 5.25% guaranteed notes due 2015

On July 20, 2005, PCCW-HKT Capital No.3 Limited, an indirect wholly-owned subsidiary of the Company, issued US$500 million 5.25% guaranteed notes due 2015, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTC, HKTGH and HKT and will rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC, HKTGH and HKT.

d. US$500 million 4.25% guaranteed notes due 2016

On August 24, 2010, PCCW-HKT Capital No.4 Limited, an indirect wholly-owned subsidiary of the Company, issued US$500 million 4.25% guaranteed notes due 2016, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTGH and HKT and will rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and HKT.

27 LONG-TERM BORROWINGS *(CONTINUED)*

e. Secured bank borrowings

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

On September 22, 2009, a non-wholly owned subsidiary of the Company was granted a three-year revolving loan facility up to an aggregate amount of HK$2,800 million (the "HKD Facility"). Such facility is secured by the shares and assets of certain non-wholly owned subsidiaries. In case the RMB Facility is in default, the lenders under the HKD Facility could demand for immediate repayment of principal and interest accrued under the HKD Facility. No drawdown under this revolving loan facility was made by the Group as at December 31, 2010 and 2009.

The HKD Facility is subject to the fulfillment of covenants relating to certain balance sheet ratios of certain subsidiaries of the Group, as are commonly found in lending arrangements with financial institutions. If the covenants were breached, the drawn down facilities would have become payable on demand. The Group regularly monitors its compliance with these covenants. As at December 31, 2010 and 2009, none of the covenants relating to drawn down facilities was breached.

Please refer to note 41 for details of the Group's banking facilities.

28 AMOUNT PAYABLE TO THE GOVERNMENT UNDER THE CYBERPORT PROJECT AGREEMENT

In HK$ million	The Group		
	2010		
	Government share under the Cyberport Project Agreement *(Note a)*	**Others**	**Total**
Beginning of year	**803**	**30**	**833**
Addition to amount payable	**771**	**2**	**773**
End of year, classified as current liabilities	**1,574**	**32**	**1,606**

a. Pursuant to the Cyberport Project Agreement, the Government shall be entitled to receive payments of approximately 65% of the surplus cash flow 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. The amount payable to the Government is included in properties under development as the amount is considered as part of the development costs of the Cyberport project. The amount payable is based on estimated sales proceeds of the residential portion of the Cyberport project and the estimated development costs of the Cyberport project. The estimated amount to be paid to the Government during the forthcoming year is classified as current liabilities.

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

29 DERIVATIVE FINANCIAL INSTRUMENTS

In HK$ million	The Group 2010	2009
Non-current assets		
Fixed-to-fixed cross currency swap contracts – cash flow hedges *(note a)*	**152**	–
Current assets		
Fixed-to-fixed cross currency swap contracts – cash flow hedges *(note a)*	**17**	108
Non-current liabilities		
Fixed-to-floating cross currency swap contracts – cash flow hedges *(note b)*	**(34)**	–
Fixed-to-floating cross currency swap contracts – fair value hedges *(note b)*	**(68)**	–
	(102)	–

As at December 31, 2010, the Group had outstanding cross currency swap contracts with notional contract amounts of US$2,500 million (approximately HK$19,454 million) (2009: US$2,000 million (approximately HK$15,510 million)) at various rates, to manage the Group's exposure to foreign currency fluctuations and interest rate risk.

The full fair value of a hedging derivative is classified as non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

a. All of the fixed-to-fixed cross currency swap contracts outstanding as at December 31, 2010 with notional contract amounts of US$2,000 million (approximately HK$15,563 million) (2009: US$2,000 million (approximately HK$15,510 million)) were designated as cash flow hedges of the foreign exchange rate risk in the Group's foreign currency denominated borrowings. Maturity of these swaps matches with the maturity of the underlying borrowings and has fixed the USD/HKD exchange rate at 7.7790 to 7.8014 (2009: 7.7790 to 7.8014) for the notional amounts (see note 38(c)(i)). Gains and losses recognized in the hedging reserve under equity on these cross currency swap contracts will be continuously released to the income statement until the repayment of the borrowings.

b. The Group has entered into fixed-to-floating cross currency swap contracts outstanding as at December 31, 2010 with notional contract amounts of US$500 million (approximately HK$3,891 million) (2009: nil). Maturity of these swaps matches with the maturity of the underlying fixed rate borrowings and has fixed the USD/HKD exchange rate at 7.7708 to 7.7711 for the notional amounts (see note 38(c)(i)). The swaps also pre-determined the interest rates at HIBOR +2.24% (see note 38(c)(ii)).

These swap contracts were designated as (i) cash flow hedges of the foreign exchange rate risk in the Group's foreign currency denominated borrowings and (ii) fair value hedges of the interest rate risk in the Group's borrowings at fixed interest rates.

Gains and losses recognized in the hedging reserve under equity on these swap contracts designated as cash flow hedges will be continuously released to the income statement until the repayment of the borrowings.

Those swap contracts designated as fair value hedges will offset the impact of future changes in interest rates on the fair value of the underlying fixed-rate debt obligations. The swap contracts were reflected at fair value in the consolidated balance sheet and the related portion of fixed-rate debt being hedged was reflected at an amount equal to the sum of its carrying amount plus an adjustment representing the change in fair value of the debt obligations attributable to the interest rate risk being hedged. Changes in the fair value of the swap contracts and the corresponding changes in the adjusted carrying amount of the related portion of the fixed-rate debt being hedged, are recognized as adjustments in "Finance Costs" in the consolidated income statement. The net effect recognized in the "Finance Costs" represents the ineffective portion of the hedging relationship, amounted to approximately HK$8 million for the current year (2009: nil).

30 SHARE CAPITAL

	2010 Number of shares	**2010** Nominal value HK$ million	2009 Number of shares	2009 Nominal value HK$ million
Authorized:				
Ordinary shares of HK$0.25 each				
Beginning and end of year	**10,000,000,000**	**2,500**	10,000,000,000	2,500
Issued and fully paid:				
Ordinary shares of HK$0.25 each				
Beginning of year	**6,772,294,654**	**1,693**	6,772,294,654	1,693
Issue of ordinary shares *(note a)*	**500,000,000**	**125**	–	–
End of year	**7,272,294,654**	**1,818**	6,772,294,654	1,693

a. The Company issued 500,000,000 ordinary shares on August 31, 2010 of HK$0.25 at a price of HK$2.60 per share. The proceeds from the placement of shares were approximately HK$1,300 million (before deduction of expenses). The proceeds will be used for general corporate purposes.

All new ordinary shares issued during the year rank pari passu in all respects with the existing shares.

31 EMPLOYEE RETIREMENT BENEFITS

a. Defined benefit retirement schemes

The Group operates defined benefit retirement schemes ("DB Schemes") that provide lump sum benefits for employees upon resignation and retirement. The DB Schemes are final salary defined benefit schemes. The scheme assets are administered by independent trustees and are maintained independently of the Group's finances.

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.

The latest independent actuarial valuation of the DB Schemes, prepared in accordance with HKAS 19, was carried out on December 31, 2010 and was prepared by Ms Wing Lui of Towers Watson Hong Kong Limited, a fellow of the Society of Actuaries of the United States of America, using the projected unit credit method. The actuary was of the opinion that the fair value of the scheme assets was sufficient to cover 75% (2009: 70%) of the present value of the defined benefit obligations as at December 31, 2010.

i. The amount recognized in the consolidated balance sheet is as follows:

In HK$ million	The Group **2010**	The Group 2009
Present value of the defined benefit obligations *(note iii)*	**261**	286
Fair value of scheme assets *(note iv)*	**(195)**	(201)
	66	85
Unrecognized actuarial losses	**(62)**	(80)
Defined benefit liability in the consolidated balance sheet	**4**	5

No employer's contributions are expected to be paid to the scheme in 2011.

31 EMPLOYEE RETIREMENT BENEFITS *(CONTINUED)*

a. Defined benefit retirement schemes *(continued)*

ii. Major categories of scheme assets as a percentage of total scheme assets are as follows:

	The Group	
	2010	2009
Equity securities	**–**	–
Cash or short-term fixed deposits	**–**	–
Other (insurance fund)	**100%**	100%
	100%	100%

As at December 31, 2010, the scheme assets do not include any ordinary shares issued by the Company (2009: Nil).

iii. Movements in the present value of the defined benefit obligations are as follows:

In HK$ million	The Group	
	2010	2009
Beginning of year	**286**	352
Benefits paid	**(12)**	(12)
Interest cost	**7**	4
Actuarial gains	**(20)**	(58)
End of year	**261**	286

iv. Movements in the present value of scheme assets are as follows:

In HK$ million	The Group	
	2010	2009
Beginning of year	**201**	204
Benefits paid	**(12)**	(12)
Expected return on scheme assets	**11**	11
Actuarial losses	**(5)**	(2)
End of year	**195**	201

31 EMPLOYEE RETIREMENT BENEFITS *(CONTINUED)*

a. Defined benefit retirement schemes *(continued)*

v. Income recognized in the consolidated income statement is as follows:

In HK$ million	The Group **2010**	2009
Interest cost	**7**	4
Expected return on scheme assets	**(11)**	(11)
Net actuarial losses recognized during the year	**3**	5
	(1)	(2)
Total included in General and administrative expenses – retirement costs for other staff *(note 9(a))*	**(1)**	(2)
Actual return on scheme assets	**6**	9

vi. The principal actuarial assumptions used (expressed as weighted averages) are as follows:

	The Group **2010**	2009
Discount rate	**3.10%**	2.60%
Expected rate of return on scheme assets	**5.75%**	5.75%
Future pension increase	**3.00%**	3.00%

The expected rate of return on scheme assets is based on the long-term benchmark allocation of the scheme.

vii. Historical information:

In HK$ million	The Group				
	2010	2009	2008	2007	2006
Present value of the defined benefit obligations	**261**	286	352	253	237
Fair value of scheme assets	**(195)**	(201)	(204)	(206)	(208)
Deficit in the scheme	**66**	85	148	47	29
Experience (gains)/losses on scheme liabilities	**(2)**	8	(1)	3	2
Experience losses on scheme assets	**5**	2	2	2	4

31 EMPLOYEE RETIREMENT BENEFITS *(CONTINUED)*

b. Defined contribution retirement schemes

The Group also operates defined contribution schemes, 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 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% 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.

32 EQUITY COMPENSATION BENEFITS

a. Share option schemes of the Company

The Company has a share option scheme (the "1994 Scheme") which was adopted in September 1994 and amended in May 2002 under which the board of directors (the "Board") of the Company may, at its discretion, invite employees of the Group, including directors of any company in the Group, and other eligible persons, to take up options to subscribe for shares of the Company. The vesting period and exercise period of the options are determined by the Board but in any case no options can be exercised later than 10 years from the date of grant. Each option gives the holder the right to subscribe for one share. The 1994 Scheme was due to expire in September 2004.

At the Company's annual general meeting held on May 19, 2004, the shareholders of the Company approved the termination of the 1994 Scheme and the adoption of a new share option scheme (the "2004 Scheme"). Since May 19, 2004, the Board 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 2004 Scheme. 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 2004 Scheme and any other share option schemes including 1994 Scheme must not exceed 30% of the shares in issue from time to time. In addition, the maximum number of shares which may be granted under the 2004 Scheme must not exceed 10% of the Company's issued share capital as at May 19, 2004 (or some other date if renewal of this limit is approved by shareholders). The exercise price of the options under the 2004 Scheme shall be determined by the Board at its absolute discretion but in any event shall not be less than the highest of (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, (ii) the average closing price of the shares 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 a share on the date of grant. The vesting period and exercise period of the options are determined by the Board, but no option can be exercised later than the day last preceding the tenth anniversary of the date of grant in respect of such option. In general, the subscription price is determined by reference to the closing prices of the shares as stated in the daily quotations sheet of the Stock Exchange. The basis for determination of the subscription price and the total number of shares that can be granted to eligible persons are precisely specified in the rules of the 2004 Scheme. The 2004 Scheme does not specify a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

(Amount expressed in Hong Kong dollars unless otherwise stated)

32 EQUITY COMPENSATION BENEFITS *(CONTINUED)*

a. Share option schemes of the Company *(continued)*

i. Movements in the number of share options outstanding and their related weighted average exercise prices

	2010 Weighted average exercise price HK$	**2010** Number of options	2009 Weighted average exercise price HK$	2009 Number of options
Beginning of year	**12.45**	**82,837,597**	10.28	137,971,730
Cancelled/Lapsed *(note iii)*	**38.76**	**(15,127,980)**	7.02	(55,134,133)
End of year *(note ii)*	**6.57**	**67,709,617**	12.45	82,837,597
Exercisable at end of year	**6.57**	**67,709,617**	12.45	82,837,597

ii. Terms of unexpired and unexercised share options at balance sheet date

Date of grant	Vesting period	Exercise period	Exercise price HK$	Number of options **2010**	Number of options 2009
February 8, 2000 to March 8, 2000	February 8, 2001 to February 8, 2003	February 8, 2001 to February 8, 2010	75.2400	**–**	86,700
August 26, 2000 to September 24, 2000	May 26, 2001 to May 26, 2005	May 26, 2001 to August 26, 2010	60.1200	**–**	6,461,600
October 27, 2000 to November 25, 2000	March 15, 2001 to March 15, 2005	March 15, 2001 to October 27, 2010	24.3600	**–**	7,554,026
January 22, 2001 to February 20, 2001	January 22, 2001 to January 22, 2005	January 22, 2001 to January 22, 2011	16.8400	**10,491,559**	10,655,759
February 8, 2001	February 8, 2002 to February 8, 2004	February 8, 2002 to February 8, 2011	18.7600	**86,700**	86,700
April 17, 2001 to May 16, 2001	May 26, 2001 to May 26, 2005	May 26, 2001 to April 17, 2011	10.3000	**1,039,000**	1,047,640
July 16, 2001 to September 15, 2001	July 16, 2002 to July 16, 2004	July 16, 2002 to July 16, 2011	9.1600	**169,120**	194,600
April 11, 2002	April 11, 2003 to April 11, 2007	April 11, 2003 to April 11, 2012	7.9150	**86,700**	86,700
August 1, 2002	August 1, 2003 to August 1, 2005	August 1, 2003 to July 31, 2012	8.0600	**200,000**	200,000
November 13, 2002	November 13, 2003 to November 13, 2005	November 13, 2003 to November 12, 2012	6.1500	**5,480,000**	5,860,000
July 25, 2003	July 25, 2004 to July 25, 2006	July 25, 2004 to July 23, 2013	4.3500	**50,149,538**	50,596,872
September 16, 2003	September 16, 2004 to September 16, 2006	September 16, 2004 to September 14, 2013	4.9000	**7,000**	7,000
				67,709,617	82,837,597

32 EQUITY COMPENSATION BENEFITS *(CONTINUED)*

a. Share option schemes of the Company *(continued)*

ii. Terms of unexpired and unexercised share options at balance sheet date *(continued)*

The range of exercise prices and the weighted average remaining contractual life of the share options outstanding are as follows:

	2010		2009	
Range of exercise prices	**Weighted average remaining contractual life (years)**	**Number of options**	Weighted average remaining contractual life (years)	Number of options
HK$4.01 to 5.04	**2.56**	**50,156,538**	3.56	50,603,872
5.05 to 7.54	**1.87**	**5,480,000**	6.15	5,860,000
7.55 to 11.29	**0.56**	**1,494,820**	1.56	1,528,940
16.80 to 25.04	**0.06**	**10,578,259**	0.96	18,296,485
55.05 to 70.04	**N/A**	**–**	0.65	6,461,600
70.05 to 85.00	**N/A**	**–**	0.10	86,700
		67,709,617		82,837,597

iii. Details of share options cancelled or lapsed during the year

Exercise period	Exercise price HK$	Number of options **2010**	2009
February 8, 2001 to February 8, 2010	75.2400	**86,700**	–
May 26, 2001 to August 26, 2010	60.1200	**6,461,600**	–
March 15, 2001 to October 27, 2010	24.3600	**7,554,026**	605,600
October 25, 2000 to October 25, 2009	22.7600	**–**	1,529,600
January 22, 2001 to January 22, 2011	16.8400	**164,200**	276,680
August 17, 2000 to August 17, 2009	11.7800	**–**	13,192,793
May 26, 2001 to April 17, 2011	10.3000	**8,640**	3,280
July 16, 2002 to July 16, 2011	9.1600	**25,480**	15,680
November 13, 2003 to November 12, 2012	6.1500	**380,000**	260,000
July 25, 2004 to July 23, 2013	4.3500	**447,334**	859,000
February 8, 2006 to February 7, 2009	4.4750	**–**	38,391,500
		15,127,980	55,134,133

(Amount expressed in Hong Kong dollars unless otherwise stated)

32 EQUITY COMPENSATION BENEFITS *(CONTINUED)*

b. Share award schemes of the Company

In 2002, the Company established two employee share incentive award schemes under which awards of shares may be granted to employees of participating subsidiaries. Directors of the Company are not eligible to participate in either scheme. On June 10, 2002, the Company approved the establishment of the Purchase Scheme under which selected employees are awarded shares purchased in the market. On November 12, 2002, the Company approved the establishment of the Subscription Scheme under which selected employees are awarded newly issued shares. The purpose of both the Purchase Scheme and the Subscription Scheme is to recognize the contributions of certain employees of the Group, to retain them for the continued operation and development of the Group, and to attract suitable personnel for the further development of the Group. Under both schemes, following the making of an award to an employee, the relevant shares are held on trust for that employee and then vest over a period of time provided that the employee remains an employee of the Group at the relevant time and satisfies any other conditions specified at the time the award is made. In May 2006, the Purchase Scheme was altered such that the directors of the Company are also eligible to participate in this scheme. The maximum aggregate number of shares that can be awarded under the two schemes is limited to 1% of the issued share capital of the Company (excluding shares that have already been transferred to employees on vesting).

A summary of movements in shares held under the share award schemes during the year is as follows:

	Number of shares	
	2010	2009
Beginning and end of year	**2,519,109**	2,519,109

c. Share option schemes of PCPD

PCPD approved and adopted a share option scheme on March 17, 2003 (the "2003 PCPD Scheme"), which was valid for 10 years after the date of adoption. In order to align the terms of the share option scheme of PCPD with those of the Company and in view of the limited number of shares capable of being issued under the 2003 PCPD Scheme relative to the current capital base of PCPD, the shareholders of PCPD approved the termination of the 2003 PCPD Scheme and the adoption of a new share option scheme (the "2005 PCPD Scheme") at PCPD's annual general meeting held on May 13, 2005. The 2005 PCPD Scheme became effective on May 23, 2005 following its approval by the shareholders of the Company. No further share options will be granted under the 2003 PCPD Scheme following its termination, but the provisions of such scheme will remain in full force and effect with respect to the options granted prior to its termination.

Under the 2005 PCPD Scheme, the board of directors of PCPD may, at its discretion, grant share options to any eligible person to subscribe for shares in PCPD subject to the terms and conditions stipulated in the 2005 PCPD Scheme. The exercise price of the options under the 2005 PCPD Scheme is determined by the board of directors of PCPD at its absolute discretion but in any event shall not be less than the highest of (i) the closing price of the shares of PCPD 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 PCPD 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 PCPD 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 PCPD Scheme and other share option schemes of PCPD must not exceed 30% of the shares in issue from time to time. In addition, the maximum number of shares of PCPD in respect of which options may be granted under the 2005 PCPD Scheme shall not (when aggregated with any shares subject to any grants made after May 23, 2005 pursuant to any other share option schemes of PCPD) exceed 10% of the issued share capital of PCPD on May 23, 2005 (or some other date if renewal of this limit is approved by shareholders).

No share options have been granted under the 2005 PCPD Scheme during the years ended December 31, 2010 and 2009 and no share options were outstanding at December 31, 2010 under such scheme.

32 EQUITY COMPENSATION BENEFITS *(CONTINUED)*

c. Share option schemes of PCPD *(continued)*

Details of share options granted by PCPD pursuant to the 2003 PCPD Scheme and the share options outstanding, are as follows:

i. Movements in the number of share options outstanding and their related weighted average exercise prices

	2010		2009	
	Weighted average exercise price HK$	**Number of options**	Weighted average exercise price HK$	Number of options
Beginning and end of year *(note ii)*	**2.375**	**5,000,000**	2.375	5,000,000
Exercisable at end of year	**2.375**	**5,000,000**	2.375	5,000,000

ii. Terms of unexpired and unexercised share options at balance sheet date

				Number of options	
Date of grant	Vesting period	Exercise period	Exercise price HK$	**2010**	2009
December 20, 2004	December 20, 2004	December 20, 2004 to December 19, 2014	2.375	**5,000,000**	5,000,000
				5,000,000	5,000,000

The options outstanding at December 31, 2010 had a weighted average remaining contractual life of 4 years (2009: 5 years).

As the share options were vested before January 1, 2005, there was no expense recognized in the consolidated income statement.

33 (DEFICIT)/RESERVES

In HK$ million 2010	Share premium	Special capital reserve	Capital redemption reserve	Treasury stock	Employee share-based compensation reserve	Currency translation reserve	Hedging reserve	Available-for-sale financial assets reserve	Other reserve	(Deficit)/ Retained profits	Total
THE GROUP											
At January 1, 2010	7,989	12,401	3	(18)	96	577	266	66	–	(28,518)	(7,138)
Total comprehensive income for the year	–	–	–	–	–	332	(70)	17	–	1,926	2,205
Dividend paid in respect of previous year	–	(901)	–	–	–	–	–	–	–	–	(901)
Dividend declared and paid in respect of the current year	–	(370)	–	–	–	–	–	–	–	–	(370)
Issue of ordinary shares, net of issuing expenses	1,154	–	–	–	–	–	–	–	–	–	1,154
Increase in ownership interest in a subsidiary	–	–	–	–	–	–	–	–	(31)	–	(31)
At December 31, 2010	9,143	11,130	3	(18)	96	909	196	83	(31)	(26,592)	(5,081)
THE COMPANY											
At January 1, 2010	7,989	12,401	3	–	95	–	–	–	–	6,442	26,930
Total comprehensive income for the year	–	–	–	–	–	–	–	–	–	1,949	1,949
Dividend paid in respect of previous year	–	(901)	–	–	–	–	–	–	–	–	(901)
Dividend declared and paid in respect of the current year	–	(370)	–	–	–	–	–	–	–	–	(370)
Issue of ordinary shares, net of issuing expenses	1,154	–	–	–	–	–	–	–	–	–	1,154
At December 31, 2010	9,143	11,130	3	–	95	–	–	–	–	8,391	28,762

33 (DEFICIT)/RESERVES *(CONTINUED)*

In HK$ million	2009									
	Share premium	Special capital reserve	Capital redemption reserve	Treasury stock	Employee share-based compensation reserve	Currency translation reserve	Hedging reserve	Available-for-sale financial assets reserve	(Deficit)/ Retained profits	Total
THE GROUP										
At January 1, 2009	7,989	21,205	3	(18)	137	369	437	(15)	(30,065)	42
Total comprehensive income for the year	–	–	–	–	–	208	(171)	81	1,506	1,624
Special dividend declared and paid during the year	–	(8,804)	–	–	–	–	–	–	–	(8,804)
Reclassification due to expiry of share options	–	–	–	–	(41)	–	–	–	41	–
At December 31, 2009	7,989	12,401	3	(18)	96	577	266	66	(28,518)	(7,138)
THE COMPANY										
At January 1, 2009	7,989	21,205	3	–	136	–	–	–	6,379	35,712
Total comprehensive income for the year	–	–	–	–	–	–	–	–	22	22
Special dividend declared and paid during the year	–	(8,804)	–	–	–	–	–	–	–	(8,804)
Reclassification due to expiry of share options	–	–	–	–	(41)	–	–	–	41	–
At December 31, 2009	7,989	12,401	3	–	95	–	–	–	6,442	26,930

The special capital reserve was created as a result of capital reduction in 2004 where the Company applied its entire share premium balance to eliminate accumulated losses as at June 30, 2004. The special capital reserve was not treated as realized profit and (for so long as the Company remains a listed company) was treated as an undistributable reserve for the purposes of section 79C of the Hong Kong Companies Ordinance.

On January 10, 2006, the High Court of Hong Kong (the "High Court") made an order which permitted the Company to distribute dividend out of the special capital reserve providing that the Company setting aside sums totalling approximately US$544 million (approximately HK$4,243 million) and HK$106 million for the sole purpose of discharging certain debts or liabilities of the Company existing at the date of the Capital Reduction, principally being the aggregate amount of principal, accrued interest and redemption premium payable on maturity of the US$450 million 1% guaranteed convertible bonds due 2007 issued by PCCW Capital No. 2 Limited. Those amounts were set aside, and the High Court order thereby became effective, on March 27, 2006. As at December 31, 2010, the total cash set aside was approximately HK$32 million (2009: HK$52 million) and was recorded under "Restricted cash" in the balance sheet of the Company (see note 26(b)). Accordingly, as at December 31, 2010, the Company had special capital reserve, which can be distributed as dividend in accordance with above, of HK$11,130 million (2009: HK$12,401 million). Inclusive of retained profits of HK$8,391 million (2009: HK$6,442 million), the Company has total distributable reserves of HK$19,521 million (2009: HK$18,843 million).

34 DEFERRED INCOME TAX

a. Movement in deferred income tax liabilities/(assets) during the year is as follows:

In HK$ million	The Group 2010						
	Accelerated tax depreciation	**Valuation adjustment resulting from acquisition of subsidiaries**	**Leasing partnership**	**Revaluation of properties**	**Tax losses**	**Others**	**Total**
Beginning of year	**957**	**281**	**11**	**(8)**	**–**	**(30)**	**1,211**
Charged/(Credited) to consolidated income statement *(note 12(a))*	**614**	**(31)**	**(11)**	**299**	**(71)**	**10**	**810**
Exchange differences	**10**	**–**	**–**	**–**	**–**	**–**	**10**
End of year	**1,581**	**250**	**–**	**291**	**(71)**	**(20)**	**2,031**

In HK$ million	The Group 2009						
	Accelerated tax depreciation	Valuation adjustment resulting from acquisition of subsidiaries	Leasing partnership	Revaluation of properties	Tax losses	Others	Total
Beginning of year	430	302	49	(4)	(65)	(46)	666
Charged/(Credited) to consolidated income statement *(note 12(a))*	527	(21)	(38)	(4)	65	21	550
Exchange differences	–	–	–	–	–	(5)	(5)
End of year	957	281	11	(8)	–	(30)	1,211

In HK$ million	The Group **2010**	2009
Net deferred income tax assets recognized in the consolidated balance sheet	**(78)**	(65)
Net deferred income tax liabilities recognized in the consolidated balance sheet	**2,109**	1,276
	2,031	1,211

34 DEFERRED INCOME TAX *(CONTINUED)*

b. During the year, deferred income tax assets of HK$71 million have been recognized (2009: HK$65 million had been reversed) for tax losses carry-forward to the extent that realization of the related tax benefit through utilization against future taxable profits is probable. The Group has unutilized estimated tax losses for which no deferred income tax assets have been recognized of HK$17,550 million (2009: HK$17,805 million) to carry forward for deduction against future taxable income. Estimated tax losses of HK$309 million (2009: HK$1,232 million) and HK$33 million (2009: HK$20 million) will expire within 1–5 years and after 5 years from December 31, 2010 respectively. The remaining portion of the tax losses, mainly relating to Hong Kong companies, can be carried forward indefinitely.

35 CARRIER LICENCE FEE LIABILITIES

As at December 31, 2010, the Group had carrier licence fee liabilities repayable as follows:

In HK$ million	The Group					
	2010			2009		
	Present value of the minimum annual fees	**Interest expense relating to future periods**	**Total minimum annual fees**	Present value of the minimum annual fees	Interest expense relating to future periods	Total minimum annual fees
Repayable within a period						
– not exceeding one year	**143**	**11**	**154**	85	9	94
– over one year, but not exceeding two years	**137**	**24**	**161**	85	19	104
– over two years, but not exceeding five years	**390**	**153**	**543**	243	120	363
– over five years	**368**	**233**	**601**	152	140	292
	1,038	**421**	**1,459**	565	288	853
Less: Amounts repayable within one year included under current liabilities	**(143)**	**(11)**	**(154)**	(85)	(9)	(94)
	895	**410**	**1,305**	480	279	759

36 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

a. Reconciliation of profit before income tax to net cash generated from operating activities

In HK$ million	The Group 2010	2009
Profit before income tax	**3,080**	2,380
Adjustment for:		
Provision for inventory obsolescence	**9**	6
Interest income	**(27)**	(18)
Interest expense	**1,331**	1,366
Finance charges	**247**	118
Cash flow hedges: transferred from equity	**1**	1
Fair value losses on derivative financial instruments on fair value hedges	**88**	–
Fair value adjustment of borrowings attributable to interest rate risk	**(80)**	–
Depreciation of property, plant and equipment	**2,678**	2,677
Net realized gains on disposal of available-for-sale financial assets	**(10)**	–
Realized gain from investment in available-for-sale financial assets	**(21)**	–
Net gain on cash flow hedging instruments transferred from equity	**(41)**	(42)
Fair value gains on investment properties	**(1,155)**	(1)
Provision for impairment of investments	**21**	–
Net realized gains on disposal of subsidiaries	**–**	(232)
Net realized gains on disposal of an associate	**(1)**	–
Loss on disposal of a jointly controlled company	**–**	1
Impairment loss reversed on interest in an associate	**–**	(1)
Losses on property, plant and equipment	**–**	61
Reversal of provision for rental guarantee	**(2)**	(40)
Loss on disposal of property, plant and equipment	**45**	–
Impairment loss on goodwill	**–**	96
Impairment loss for doubtful debts	**119**	351
Amortization of intangible assets	**1,099**	1,081
Amortization of land lease premium		
– interests in leasehold land	**23**	22
Share of results of associates and jointly controlled companies	**82**	55
Negative goodwill resulted from acquisition of subsidiaries	**(2)**	–
Exchange (gains)/losses	**(1)**	1
(Increase)/Decrease in operating assets		
– properties held for/under development/for sale	**(162)**	1,671
– inventories	**140**	18
– trade receivables	**(218)**	1,603
– prepayments, deposits and other current assets	**(681)**	(629)
– sales proceeds held in stakeholders' accounts	**426**	5,723
– restricted cash	**(1,301)**	(218)
– amounts due from related companies	**6**	30
– other non-current assets	**(24)**	(43)
(Decrease)/Increase in operating liabilities		
– trade payables, accruals and other payables and deferred income	**(388)**	(924)
– amount payable to the Government under the Cyberport Project Agreement	**773**	(5,343)
– gross amounts due to customers for contract work	**–**	(5)
– amounts due to related companies	**(73)**	(116)
– other long-term liabilities	**(12)**	(84)
– advances from customers	**75**	(456)
CASH GENERATED FROM OPERATIONS	**6,044**	9,109
Interest received	**21**	18
Income tax paid, net of tax refund		
– Hong Kong profits tax paid	**(100)**	(1,159)
– overseas profits tax paid	**(45)**	(28)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**5,920**	7,940

36 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(CONTINUED)*

b. Acquisition of subsidiaries

In HK$ million	The Group 2010	2009
Net assets/(liabilities) acquired:		
Property, plant and equipment	**1**	40
Intangible assets	**2**	3
Interest in jointly controlled companies	**3**	–
Other non-current assets	**–**	6
Trade receivables, prepayments, deposits and other current assets	**46**	64
Inventories	**6**	–
Restricted cash	**–**	10
Cash and cash equivalents	**26**	2
Trade payables, accruals and other payables	**(71)**	(58)
Short-term borrowings	**(6)**	(47)
Other long-term liabilities	**–**	(45)
Non-controlling interests	**–**	(3)
	7	(28)
Goodwill on acquisition	**55**	191
Negative goodwill resulted from acquisition	**(2)**	–
Purchase consideration	**60**	163
Satisfied by:		
Cash	**34**	82
Acquisition-related contingent consideration payable	**26**	77
Direct costs in relation to the acquisition	**–**	4
	60	163
Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries:		
Purchase consideration settled in cash	**(34)**	(86)
Cash and cash equivalents of subsidiaries acquired	**26**	2
Net cash outflow in respect of acquisition of subsidiaries	**(8)**	(84)

36 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(CONTINUED)*

c. Disposal of subsidiaries

In HK$ million	The Group	
	2010	2009
Net assets disposed of:		
Properties under development	–	672
Prepayments, deposits and other current assets	–	20
Cash and cash equivalents	–	71
Accruals, other payables and deferred income	–	(7)
Current income tax liabilities	–	(2)
	–	754
Consideration settled by cash	–	(913)
	–	(159)
Reclassification adjustments from currency translation reserve	–	(73)
Gain on disposal of subsidiaries *(note 7)*	–	(232)
Analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:		
Consideration settled by cash	–	913
Cash and cash equivalents disposed of	–	(71)
Net cash inflow in respect of disposal of subsidiaries	–	842

d. Analysis of cash and cash equivalents

In HK$ million	The Group		The Company	
	2010	2009	**2010**	2009
Cash and bank balances	**10,420**	9,070	**226**	145
Bank overdrafts	**(38)**	(20)	**–**	–
Restricted cash	**(2,281)**	(1,001)	**(32)**	(52)
Cash and cash equivalents as at December 31,	**8,101**	8,049	**194**	93

37 CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders, and benefits for other stakeholders, to support the Group's stability and growth; and to earn a margin commensurate with the level of business and market risks in the Group's operation.

The Group monitors capital by reviewing the level of capital that is at the disposal of the Group ("adjusted capital"), taking into consideration the future capital requirements of the Group, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. Adjusted capital comprises share capital, share premium, treasury stock, employee share-based compensation reserve, currency translation reserve, hedging reserve, available-for-sale financial assets reserve and other reserve.

The adjusted capital at December 31, 2010 and 2009 was as follows:

In HK$ million	The Group	
	2010	2009
Equity attributable to equity holders of the Company	**(3,263)**	(5,445)
Add back: Accumulated deficits	**26,592**	28,518
Adjusted Capital	**23,329**	23,073

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements, except for the debt covenant requirement of the loan agreements with external parties and the minimum capital requirement of a subsidiary regulated by Bermuda Monetary Authority.

38 FINANCIAL INSTRUMENTS

The tables below analyses financial instruments by category:

In HK$ million	The Group 2010				
	Held-to-maturity investments	**Loans and receivables**	**Derivatives used for hedging**	**Available-for-sale financial assets**	**Total**
Non-current assets					
Held-to-maturity investments	**2**	**–**	**–**	**–**	**2**
Available-for-sale financial assets	**–**	**–**	**–**	**281**	**281**
Derivative financial instruments	**–**	**–**	**152**	**–**	**152**
Other non-current assets	**–**	**35**	**–**	**–**	**35**
	2	**35**	**152**	**281**	**470**
Current assets					
Sale proceeds held in stakeholders' accounts	**–**	**845**	**–**	**–**	**845**
Restricted cash	**–**	**2,281**	**–**	**–**	**2,281**
Prepayments, deposits and other current assets (excluding prepayments)	**–**	**2,529**	**–**	**–**	**2,529**
Amount due from related companies	**–**	**2**	**–**	**–**	**2**
Derivative financial instruments	**–**	**–**	**17**	**–**	**17**
Trade receivables, net	**–**	**2,529**	**–**	**–**	**2,529**
Cash and cash equivalents	**–**	**8,101**	**–**	**–**	**8,101**
	–	**16,287**	**17**	**–**	**16,304**
Total	**2**	**16,322**	**169**	**281**	**16,774**

In HK$ million	The Group 2010		
	Derivatives used for hedging	**Other financial liabilities at amortized cost**	**Total**
Current liabilities			
Short-term borrowings	**–**	**7,800**	**7,800**
Trade payables	**–**	**1,705**	**1,705**
Accruals and other payables	**–**	**4,005**	**4,005**
Amount payable to the Government under the Cyberport Project Agreement	**–**	**1,606**	**1,606**
Carrier licence fee liabilities	**–**	**143**	**143**
Amounts due to related companies	**–**	**57**	**57**
	–	**15,316**	**15,316**
Non-current liabilities			
Long-term borrowings	**–**	**27,041**	**27,041**
Derivative financial instruments	**102**	**–**	**102**
Carrier licence fee liabilities	**–**	**895**	**895**
Other long-term liabilities	**–**	**119**	**119**
	102	**28,055**	**28,157**
Total	**102**	**43,371**	**43,473**

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

The tables below analyses financial instruments by category: *(continued)*

In HK$ million	The Group 2009				
	Held-to-maturity investments	Loans and receivables	Derivatives used for hedging	Available-for-sale financial assets	Total
Non-current assets					
Held-to-maturity investments	3	–	–	–	3
Available-for-sale financial assets	–	–	–	325	325
Other non-current assets	–	58	–	–	58
	3	58	–	325	386
Current assets					
Sale proceeds held in stakeholders' accounts	–	1,271	–	–	1,271
Restricted cash	–	1,001	–	–	1,001
Prepayments, deposits and other current assets (excluding prepayments)	–	1,781	–	–	1,781
Amount due from related companies	–	8	–	–	8
Derivative financial instruments	–	–	108	–	108
Trade receivables, net	–	2,418	–	–	2,418
Cash and cash equivalents	–	8,049	–	–	8,049
	–	14,528	108	–	14,636
Total	3	14,586	108	325	15,022

In HK$ million	The Group 2009	
	Other financial liabilities at amortized cost	Total
Current liabilities		
Short-term borrowings	246	246
Trade payables	1,645	1,645
Accruals and other payables	4,441	4,441
Amount payable to the Government under the Cyberport Project Agreement	833	833
Carrier licence fee liabilities	85	85
Amounts due to related companies	42	42
	7,292	7,292
Non-current liabilities		
Long-term borrowings	34,667	34,667
Carrier licence fee liabilities	480	480
Other long-term liabilities	102	102
	35,249	35,249
Total	42,541	42,541

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

The tables below analyses financial instruments by category: *(continued)*

In HK$ million	The Company Loans and receivables 2010	2009
Current assets		
Amounts due from subsidiaries	**18,262**	16,586
Restricted cash	**32**	52
Prepayments, deposits and other current assets (excluding prepayments)	**9**	9
Cash and cash equivalents	**194**	93
Total	**18,497**	16,740

In HK$ million	The Company Other financial liabilities at amortized cost 2010	2009
Current liabilities		
Short-term borrowings	**–**	200
Accruals and other payables	**7**	6
Total	**7**	206

Exposures to credit, liquidity, and market (including foreign currency, interest rate) risks arise in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities. Exposures to these risks are controlled by the Group's financial management policies and practices described below.

a. Credit risk

The Group's credit risk is primarily attributable to trade receivables, amounts due from related companies, interest receivable, over-the-counter derivative transactions and cash transactions entered into for risk management purposes. Management has policies in place and exposures to these credit risks are monitored on an ongoing basis.

Trade receivables in respect of properties sold are payable by the purchasers pursuant to the terms of the sales contracts. Other trade receivables have a normal credit period ranging up to 30 days from the date of invoice unless there is a separate mutual agreement on extension of the credit period. The Group maintains a well-defined credit policy and individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors who have overdue payable are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers. As at December 31, 2010 and 2009, the Group did not have a significant exposure to any individual debtors or counterparties.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 26(e).

Amounts due from related companies and other receivables are continuously monitored by assessing the credit quality of the counterparty, taking into account its financial position, past experience and other factors. Where necessary, impairment loss is made for estimated irrecoverable amounts. As at December 31, 2010 and 2009, the amounts due from related companies and other receivables were fully performing.

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

a. Credit risk *(continued)*

Investments, derivative financial instruments, interest receivable and cash transactions are executed with financial institutions or investment counterparties with sound credit ratings and the Group does not expect any significant counterparty risk. Moreover, credit limits are set for individual counterparties and periodic reviews are conducted to ensure that the limits are strictly followed.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the consolidated balance sheet. Except for the guarantees given by the Group as disclosed in note 40, the Group does not provide any other guarantees which would expose the Group to credit risk.

b. Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with debt covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. Management believes there is no significant liquidity risk as the Group has sufficient committed facilities to fund its operations and debt servicing requirements.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

In HK$ million	The Group					
	2010					
	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 (outflow) /inflow**	**Carrying amount**
Current liabilities						
Short-term borrowings	**(8,336)**	**–**	**–**	**–**	**(8,336)**	**(7,800)**
Trade payables	**(1,705)**	**–**	**–**	**–**	**(1,705)**	**(1,705)**
Accruals and other payables	**(4,005)**	**–**	**–**	**–**	**(4,005)**	**(4,005)**
Amount payable to the Government under the Cyberport Project Agreement	**(1,606)**	**–**	**–**	**–**	**(1,606)**	**(1,606)**
Carrier licence fee liabilities	**(154)**	**–**	**–**	**–**	**(154)**	**(143)**
Amounts due to related companies	**(57)**	**–**	**–**	**–**	**(57)**	**(57)**
	(15,863)	**–**	**–**	**–**	**(15,863)**	**(15,316)**
Non-current liabilities						
Long-term borrowings	**(753)**	**(763)**	**(19,880)**	**(8,931)**	**(30,327)**	**(27,041)**
Derivative financial instruments	**63**	**39**	**(120)**	**(103)**	**(121)**	**(102)**
Carrier licence fee liabilities	**–**	**(161)**	**(543)**	**(601)**	**(1,305)**	**(895)**
Other long-term liabilities	**(3)**	**(20)**	**(70)**	**(48)**	**(141)**	**(119)**
	(693)	**(905)**	**(20,613)**	**(9,683)**	**(31,894)**	**(28,157)**
Total	**(16,556)**	**(905)**	**(20,613)**	**(9,683)**	**(47,757)**	**(43,473)**

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Liquidity risk *(continued)*

In HK$ million	The Group 2009					
	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 outflow	Carrying amount
Current liabilities						
Short-term borrowings	(250)	–	–	–	(250)	(246)
Trade payables	(1,645)	–	–	–	(1,645)	(1,645)
Accruals and other payables	(4,441)	–	–	–	(4,441)	(4,441)
Amount payable to the Government under the Cyberport Project Agreement	(833)	–	–	–	(833)	(833)
Carrier licence fee liabilities	(85)	–	–	–	(85)	(85)
Amounts due to related companies	(42)	–	–	–	(42)	(42)
	(7,296)	–	–	–	(7,296)	(7,292)
Non-current liabilities						
Long-term borrowings	(1,386)	(20,675)	(12,950)	(3,996)	(39,007)	(34,667)
Carrier licence fee liabilities	–	(104)	(363)	(292)	(759)	(480)
Other long-term liabilities	(14)	(17)	(41)	(49)	(121)	(102)
	(1,400)	(20,796)	(13,354)	(4,337)	(39,887)	(35,249)
Total	(8,696)	(20,796)	(13,354)	(4,337)	(47,183)	(42,541)

In HK$ million	The Company					
	2010			2009		
	Within 1 year or on demand	**Total contractual undiscounted cash outflow**	**Carrying amount**	Within 1 year or on demand	Total contractual undiscounted cash outflow	Carrying amount
Current liabilities						
Short-term borrowings	**–**	**–**	**–**	(201)	(201)	(200)
Accruals and other payables	**(7)**	**(7)**	**(7)**	(6)	(6)	(6)
Total	**(7)**	**(7)**	**(7)**	(207)	(207)	(206)

c. Market risk

Market risk composed of foreign currency, interest rate and equity price exposure deriving from the Group's operation, investment and funding activities. As a matter of policy, the Group enters into cross currency swap contracts and other financial instruments to manage its exposure to market risk directly related to its operations and financing. The Group does not undertake any speculative trading activities in connection with these financial instruments or enter into or acquire market risk sensitive instruments for trading purposes.

The Finance and Management Committee, a subcommittee of the Executive Committee of the Board, determines the appropriate risk management activities with the aim of prudently managing the market risk associated with transactions entered into in the normal course of business.

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

All treasury risk management activities are carried out in accordance with policies and guidelines approved by the Finance and Management Committee and the Executive Committee, which are reviewed on a regular basis. Early termination and amendments to the terms of the transaction would typically occur when there are changes in the underlying assets or liabilities or in the risk management strategy of the Group.

In the normal course of business, the Group uses the above-mentioned financial instruments to limit its exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions and all contracts are denominated in currencies of major industrial countries.

i. Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises when the Group's recognized assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group's borrowings are mainly denominated in either Hong Kong dollars or United States dollars. As at December 31, 2010 and 2009, majority of the Group's short-term and long-term borrowings denominated in United States dollars were swapped into Hong Kong dollars by cross currency swap contracts. Given this, management does not expect that there will be any significant currency risk associated with the Group's borrowings. Certain portion of the cross currency swap contracts outstanding as at December 31, 2010 with an aggregate notional contract amount of US$2,500 million (approximately HK$19,454 million) (2009: US$2,000 million (approximately HK$15,510 million)) were designated as cash flow hedges against foreign exchange rate risk.

In respect of trade receivables and payables held in currencies other than the functional currency of the operations to which they relate, 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.

The following table details the Group's exposure at the balance sheet date to currency risk arising from significant recognized financial assets or liabilities denominated in foreign currencies.

In HK$ million	The Group			
	2010		2009	
	United States Dollars	**Chinese Renminbi**	United States Dollars	Chinese Renminbi
Trade receivables	**578**	**331**	615	278
Amounts due from related companies	**–**	**–**	6	–
Cash and cash equivalents	**1,491**	**651**	1,633	630
Trade payables	**(752)**	**(172)**	(608)	(127)
Amounts due to related companies	**(64)**	**–**	(37)	–
Bank borrowings	**(7,800)**	**–**	(46)	–
Long-term borrowings	**(11,518)**	**(12)**	(15,446)	(11)
Gross exposure arising from recognized financial (liabilities)/assets	**(18,065)**	**798**	(13,883)	770
Net financial liabilities denominated in respective entities' functional currencies	**(67)**	**(808)**	–	(772)
Notional amounts of cross currency swap contracts designated as cash flow hedges	**19,454**	**–**	15,510	–
Overall net exposure	**1,322**	**(10)**	1,627	(2)

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

i. Foreign currency risk *(continued)*

As at December 31, 2010, if Hong Kong dollar had weakened/strengthened by 1% against the United States dollar, with all other variables held constant, the Group's profit after tax for the year would have been increased/decreased by approximately HK$11 million (2009: HK$14 million), mainly as a result of foreign exchange gains/losses on translation of United States dollar denominated recognized assets and liabilities which are not hedged by hedging instruments. Meanwhile, the hedging reserve as at December 31, 2010 would have been increased/decreased by approximately HK$195 million (2009: HK$155 million), mainly as a result of foreign exchange gains/losses on the long-term borrowings being hedged by cross currency swap contracts.

As at December 31, 2010, if Hong Kong dollar had weakened/strengthened by 5% against the Chinese Renminbi, with all other variables held constant, there would be no material impact on the Group's profit after tax for the years ended December 31, 2010 and 2009.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the Group's exposure to currency risk for recognized assets and liabilities in existence at the date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any change in the movement in value of the United States dollar against other currencies. The analysis is performed on the same basis for 2009.

ii. Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises primarily from short-term and long-term borrowings. Borrowings at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. In addition, from time to time, the Group draws under long-term revolving credit and term facilities which are denominated in Hong Kong dollars and pays interest at floating rate.

The Group has entered into fixed-to-floating cross currency swap contracts to hedge the fair value interest rate risk arising from its fixed rate long-term borrowings.

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

ii. Interest rate risk *(continued)*

The following table details the interest rate profile of the Group's borrowings at the balance sheet date, after taking into account the effect of cross currency swap contracts designated as cash flow and fair value hedging instruments.

In HK$ million, except for %	The Group			
	2010		2009	
	Effective interest rate %		Effective interest rate %	
Net fixed rate borrowings:				
Short term borrowings with cash flow hedging instruments	**7.93**	**7,772**	–	–
Long term borrowings with cash flow hedging instruments	**5.77**	**7,745**	6.84	15,446
		15,517		15,446
Variable rate borrowings:				
Bank borrowings	**1.59**	**15,551**	1.70	19,467
Long term borrowings with fair value hedging instruments	**4.46**	**3,773**	–	–
		19,324		19,467
Total borrowings		**34,841**		34,913

At December 31, 2010, if interest rates on Hong Kong dollar denominated borrowings had been increased/decreased by 10 basis points, with all other variables held constant, the Group's profit after tax for the year would have been decreased/increased by approximately HK$8 million (2009: HK$16 million), mainly as a result of higher/lower interest expense on floating rate borrowings.

The sensitivity analysis above has been determined assuming that the change in interest rate had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for the Group's floating rate borrowings in existence at that date. The 10 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2009.

iii. Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale financial assets (see note 25). Other than unquoted equity securities held for strategic purposes, all of these investments are listed on a recognized stock exchange.

To manage its equity price risk, the portfolio is diversified in accordance with the limits set by the Group. Given the insignificant portfolio of listed equity securities held by the Group, management believes that the Group's equity price risk is minimal.

Performance of the Group's unquoted investments held for long term strategic purposes is assessed at least bi-annually against performance of their business as well as similar listed entities, based on the limited information available to the Group, together with an assessment of their relevance to the Group's long term strategic plans.

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

d. Fair values

All financial instruments are carried at amounts not materially different from their fair values as at December 31, 2010 and 2009 except as follows, with fair value calculated by quoted prices:

In HK$ million	The Group			
	2010		2009	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Short-term borrowings	**(7,800)**	**(8,220)**	(246)	(246)
Long-term borrowings	**(27,041)**	**(27,693)**	(34,667)	(35,496)

e. Estimation of fair values

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

– Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

– Inputs other than quoted prices that are observable either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

– Inputs for asset or liability that are not based on observable market data (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at December 31, 2010:

In HK$ million	The Group			
	2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Available-for-sale financial assets				
– Listed equity securities	**56**	**–**	**–**	**56**
– Unlisted equity securities	**–**	**–**	**225**	**225**
Derivative financial instruments (non-current)	**–**	**152**	**–**	**152**
Derivative financial instruments (current)	**–**	**17**	**–**	**17**
Total assets	**56**	**169**	**225**	**450**
Liabilities				
Derivative financial instruments (non-current)	**–**	**(102)**	**–**	**(102)**

In HK$ million	The Group			
	2009			
	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets				
– Listed equity securities	59	–	–	59
– Unlisted equity securities	–	–	266	266
Derivative financial instruments	–	108	–	108
Total assets	59	108	266	433

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

e. Estimation of fair values *(continued)*

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group included in level 1 is the current bid price. Instruments included in level 1 comprise primarily available-for-sale financial assets listed on the Alternative Investment Market operated by London Stock Exchange plc.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. Instruments included in level 2 comprise primarily cross currency swap contracts.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. Instruments included in level 3 comprise available-for-sale financial assets.

Specific valuation techniques used to value financial instruments include:

– Quoted market prices or dealer quotes for similar instruments.

– The fair value of cross currency swap contracts is calculated as the present value of the estimated future cash flows discounted by observable interest rates.

– For unlisted securities or financial assets without an active market, the Group establish the fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same, and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs. If none of the valuation techniques results in a reasonable estimate on the fair value, the investment is stated in the balance sheet at cost less impairment losses.

The following table presents the changes in level 3 instruments for the year ended December 31, 2010:

In HK$ million	The Group **Available-for-sale financial assets – unlisted equity securities** **2010**	 2009
Opening balance	**266**	227
Additions	**28**	–
Return of investment	**(64)**	–
Unrealized fair value gains	**16**	39
Impairment loss recognized	**(21)**	–
	225	266

The estimated fair value of level 3 financial assets as at December 31, 2010 was HK$225 million (2009: HK$266 million).

39 COMMITMENTS

a. Capital

In HK$ million	The Group 2010	2009
Authorized and contracted for	**1,075**	439
Authorized but not contracted for	**1,007**	865
	2,082	1,304

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

In HK$ million	The Group 2010	2009
Investments	**104**	104
Investment properties	**7**	26
Property development	**67**	–
Acquisition of property, plant and equipment	**1,903**	1,174
Others	**1**	–
	2,082	1,304

b. Operating leases

As at December 31, 2010, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

Land and buildings

In HK$ million	The Group 2010	2009
Within 1 year	**676**	620
After 1 year but within 5 years	**1,008**	922
After 5 years	**363**	386
	2,047	1,928

Network capacity and equipment

In HK$ million	The Group 2010	2009
Within 1 year	**348**	210
After 1 year but within 5 years	**354**	241
After 5 years	**62**	–
	764	451

Majority of the leases typically run for a period of 1 to 14 years. None of the leases include contingent rentals.

39 COMMITMENTS *(CONTINUED)*

c. Others

As at December 31, 2010, the Group has other outstanding commitments as follows:

In HK$ million	The Group	
	2010	2009
Purchase of rights to broadcast certain TV content	**1,030**	1,191
Operating expenditure commitment	**248**	272
Others	**2**	–
	1,280	1,463

40 CONTINGENT LIABILITIES

In HK$ million	The Group		The Company	
	2010	2009	**2010**	2009
Performance guarantee	**377**	393	**5**	5
Tender guarantee	**11**	13	**–**	–
Guarantee in lieu of cash deposit	**4**	4	**2**	2
Employee compensation	**6**	6	**6**	6
Guarantee indemnity	**11**	11	**–**	–
Others	**12**	–	**–**	–
	421	427	**13**	13

The Group is subject to certain corporate guarantee obligations to guarantee performance of its wholly-owned subsidiaries in the normal course of their businesses. The amount of liabilities arising from such obligations, if any, cannot be ascertained but the directors are of the opinion that any resulting liability would not materially affect the financial position of the Group.

41 BANKING FACILITIES

Aggregate banking facilities as at December 31, 2010 were HK$30,320 million (2009: HK$27,885 million) of which the unused facilities amounted to HK$14,486 million (2009: HK$8,222 million).

A summary of major borrowings is set out in notes 26(f) and 27.

Security pledged for certain banking facilities includes:

In HK$ million	The Group	
	2010	2009
Property, plant and equipment	**72**	77
Investment properties	**5,074**	3,787
Trade receivables	**44**	49
Bank deposit	**3**	–
	5,193	3,913

42 BUSINESS COMBINATIONS

a. Acquisition of 802 Limited and 802 Global Limited

On May 14, 2010, the Group acquired 100 per cent of the share capital of 802 Limited and 802 Global Limited, companies incorporated in the United Kingdom. The acquirees' business covers the supply, design and distribution of wireless network solutions. The Group made an initial payment for acquisition totaling HK$34 million in cash and may potentially have to make additional payments totaling up to HK$41 million in cash if the acquired businesses achieve certain financial milestones within a specified period. The fair value of the contingent consideration is estimated at HK$26 million at the date of acquisition and has been included in the purchase price of 802 Limited and 802 Global Limited.

As at December 31, 2010, there was no change in the estimate of the contingent consideration payable after a review on the estimate of the future financial result of the acquirees.

The Group is required to recognize the acquirees' identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the acquisition date. As of the date of these consolidated financial statements, the purchase price allocation process is ongoing and has yet to be finalized. In the preparation of these consolidated financial statements, the Group has used the historical carrying values of the acquired assets and liabilities in their predecessor businesses with the excess of the cost of acquisition over these carrying values being recorded as goodwill. This allocation of the purchase price allocation to the acquired assets and liabilities is provisional and will be adjusted in the Group's 2011 consolidated financial statements when the purchase price allocation is finalized. Had the purchase price allocation been completed, the fair values of the assets and liabilities acquired and the amount of goodwill to be recorded could be materially different from the amounts recognized. The values of assets and liabilities acquired and the resulting goodwill will be adjusted retrospectively upon the completion of the purchase price allocation in 2011.

i. Details of net assets acquired and goodwill in respect of acquisitions of the wireless network solution operations at the acquisition date were as follows:

In HK$ million	**2010**
Purchase consideration in cash	**34**
Contingent consideration payable	**26**
Purchase consideration	**60**
Less: Carrying amount of net assets acquired	**(5)**
Goodwill on acquisition *(note 20)*	**55**

The goodwill is attributable to future profit generated from the wireless network solution operations.

The carrying amounts of assets and liabilities of the wireless network solution operations at the acquisition date were as follows:

In HK$ million	**Carrying amount**
Property, plant and equipment	**1**
Intangible assets	**2**
Trade receivables, prepayments, deposits and other current assets	**35**
Inventories	**6**
Trade payables, accruals and other payables	**(33)**
Short-term borrowings	**(6)**
Net assets acquired	**5**

42 BUSINESS COMBINATIONS *(CONTINUED)*

a. Acquisition of 802 Limited and 802 Global Limited *(continued)*

In HK$ million	2010
Purchase consideration settled in cash	(34)
Cash and cash equivalents of wireless network solution operations acquired	–
Cash outflow on acquisition of wireless network solution operations *(note 36(b))*	(34)

ii. Acquisition-related costs

Acquisition-related costs of HK$2 million are included in the consolidated income statement.

iii. Revenue and profit contribution

The acquired business contributed revenue of HK$26 million and resulted in a net loss of HK$5 million to the Group for the period from the date of acquisition to December 31, 2010. If the acquisition had occurred on January 1, 2010, the acquired business's revenue would have been HK$43 million, and net loss for the year would have been HK$6 million.

b. Acquisition of PC Music Holdings Limited and its subsidiaries and jointly controlled companies (together the "PC Music Group")

The Group acquired 100 per cent of the share capital of PC Music Holdings Limited, a company incorporated in the British Virgin Islands with a consideration of HK$1 on the effective acquisition date of September 30, 2010. The business of the PC Music Group covers the marketing, distribution and licensing of audio and visual musical concert content and music copyrights and agency services to artists and organizing and producing music concerts and shows primarily in Hong Kong.

i. Details of net assets acquired and goodwill in respect of acquisition of PC Music Group at the acquisition date were as follows:

In HK$ million	2010
Purchase consideration	–
Less: Fair value of net assets acquired	(2)
Negative goodwill resulted from acquisition	(2)

The negative goodwill has been recognized in other gains, net in the consolidated income statement.

The assets and liabilities of the PC Music Group at the acquisition date were as follows:

In HK$ million	Fair value	Carrying Amount
Interest in jointly controlled companies	3	3
Trade receivables, prepayments, deposits and other current assets	11	44
Cash and cash equivalents	26	26
Trade payables, accruals and other payables	(21)	(21)
Advances from customers	(17)	(17)
Net assets acquired	2	35

42 BUSINESS COMBINATIONS *(CONTINUED)*

b. Acquisition of PC Music Holdings Limited and its subsidiaries and jointly controlled companies (together the "PC Music Group") *(continued)*

i. Details of net assets acquired and goodwill in respect of acquisition of PC Music Group at the acquisition date were as follows: *(continued)*

In HK$ million	2010
Purchase consideration settled in cash	–
Cash and cash equivalents of PC Music Group acquired	**26**
Cash inflow on acquisition of PC Music Group *(note 36(b))*	**26**

ii. Acquisition-related costs

Acquisition-related costs included in the consolidated income statement are insignificant.

iii. Revenue and profit contribution

The acquired business contributed revenue of HK$12 million and resulted in a net profit of HK$1 million to the Group for the period from the date of acquisition to December 31, 2010. If the acquisition had occurred on January 1, 2010, the acquired business's revenue would have been HK$50 million, and net profit for the year would have been HK$4 million.

c. Acquisition of IP BPO Holdings Pte. Ltd.

On August 13, 2009, the Group acquired 100 per cent of the share capital of IP BPO Holdings Pte. Ltd., a company incorporated in Singapore. IP BPO Holdings Pte. Ltd. and its subsidiaries provide call center services. The Group made an initial payment for acquisition totaling HK$78 million in cash and may potentially have to make additional payments totaling up to HK$94 million in cash if the acquired businesses achieve certain financial milestones within a specified period. The fair value of the contingent consideration at the date of acquisition was estimated at HK$77 million and has been included in the purchase price of IP BPO Holdings Pte. Ltd. as at December 31, 2009. In 2010, the contingent consideration has been finalized at HK$89 million and has been settled in October 2010. The total consideration for the acquisition is finalized at HK$171 million. Upon the settlement of the contingent consideration in October 2010, an increase of HK$12 million in goodwill has been recorded.

The Group is required to recognize the acquirees' identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the acquisition date. The initial accounting for the acquisition of IP BPO Holdings Pte. Ltd. is no longer provisional as at December 31, 2010. In completing the initial accounting and the purchase price allocation, fair value of the acquirees' identifiable assets, liabilities and contingent liabilities are concluded to be the same as their carrying amount as at the acquisition date and thus no change in goodwill and no adjustment to the consolidated income statement for the year ended December 31, 2009 are required.

i. Details of net liabilities acquired and goodwill in respect of acquisition of the call center operations were as follows:

In HK$ million	Net liabilities acquired and goodwill
Purchase consideration in cash in 2009	78
Contingent consideration accrued in 2009 and paid in 2010	77
Direct costs in relation to the acquisition	4
Purchase consideration	159
Less: Fair value of net liabilities acquired	29
Goodwill on acquisition *(note 20)*	188
Additional contingent consideration accrued and paid in 2010	12
Goodwill on acquisition upon finalization of the contingent consideration	200

The goodwill is attributable to future profit generated from the call center operations.

42 BUSINESS COMBINATIONS *(CONTINUED)*

c. Acquisition of IP BPO Holdings Pte. Ltd. *(continued)*

i. Details of net liabilities acquired and goodwill in respect of acquisition of the call center operations were as follows: *(continued)*

The assets and liabilities of the call center operations at the acquisition date were as follows:

In HK$ million	Fair value	Carrying amount
Property, plant and equipment	40	40
Intangible assets	3	3
Other non-current assets	5	5
Trade receivables, prepayments, deposits and other current assets	61	61
Cash and cash equivalents	1	1
Trade payables, accruals and other payables	(44)	(44)
Short-term borrowings	(47)	(47)
Other long-term liabilities	(45)	(45)
Net liabilities	(26)	(26)
Non-controlling interests	(3)	(3)
Net liabilities acquired	(29)	(29)

In HK$ million	**2010**	2009
Purchase consideration settled in cash in 2009	**–**	(82)
Cash and cash equivalents of call center operations acquired	**–**	1
Cash outflow on acquisition of call center operations *(note 36(b))*	**–**	(81)
Contingent consideration settled in cash in 2010	**(85)**	–

ii. Revenue and profit contribution

The acquired business contributed revenue of HK$150 million and a net profit of HK$2 million to the Group for the period from August 14, 2009 to December 31, 2009. If the acquisition had occurred on January 1, 2009, the acquired business's revenue would have been HK$377 million, and loss for the year ended December 31, 2009 would have been HK$2 million.

d. Acquisition of Kabushiki Kaisha Niseko Management Service

On November 30, 2009, the Group acquired 100 per cent of the share capital of Kabushiki Kaisha Niseko Management Service, a company incorporated in Japan, which provides property management and travel agency services operations in Hokkaido, Japan.

i. Details of net assets acquired and goodwill were as follows:

In HK$ million	2009
Purchase consideration in cash for property management and travel agency services operations of Kabushiki Kaisha Niseko Management Service	4
Less: Fair value of net assets acquired	(1)
Goodwill on acquisition *(note 20)*	3

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

42 BUSINESS COMBINATIONS *(CONTINUED)*

d. Acquisition of Kabushiki Kaisha Niseko Management Service *(continued)*

i. Details of net assets acquired and goodwill were as follows: *(continued)*

The assets and liabilities of the property management and travel agency services operations at the acquisition date were as follows:

In HK$ million	Fair value	Carrying amount
Other non-current assets	1	1
Restricted cash	10	10
Trade receivables, prepayments, deposits and other current assets	3	3
Cash and cash equivalents	1	1
Trade payables, accruals, other payables and deferred income	(14)	(14)
Net assets acquired	1	1

In HK$ million	2009
Purchase consideration settled in cash	(4)
Cash and cash equivalents of property management and travel agency services operations acquired	1
Cash outflow on acquisition of property management and travel agency services operations *(note 36(b))*	(3)

ii. Revenue and profit contribution

The acquired business contributed revenue of HK$1 million and did not result in a net gain to the Group for the period from November 30, 2009 to December 31, 2009.

43 TRANSACTION WITH NON-CONTROLLING INTERESTS

On December 23, 2010, the Group acquired an additional 15% of the issued shares of Interactive Teleservices Corporation (now known as PCCW Teleservices (US), Inc.), a subsidiary of IP BPO Holdings Pte. Ltd. for a purchase consideration of approximately HK$31 million. The carrying amount of the non-controlling interests in Interactive Teleservices Corporation on the date of acquisition was nil. The Group recognized a decrease in equity attributable to the equity holders of the Company of HK$31 million. The effect of changes in the ownership interest of Interactive Teleservices Corporation on the equity attributed to the equity holders of the Company during the year is summarized as follows:

In HK$ million	**2010**	2009
Consideration paid to non-controlling interests for an increase in ownership interest in a subsidiary	**31**	–
Less: Carrying amount of non-controlling interests acquired	**–**	–
Excess of consideration paid recognized in the transactions with non-controlling interests within equity	**31**	–

There was no transaction with non-controlling interests for the year ended December 31, 2009.

44 POSSIBLE IMPACT OF AMENDMENTS, NEW OR REVISED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2010

Up to the date of approval of these financial statements, the HKICPA has issued the following amendments, new or revised standards and interpretations which are not yet effective for the accounting period ended December 31, 2010 and which have not been adopted in these financial statements:

		Effective for accounting periods beginning on or after
HKAS 32 (Amendment)	Financial Instruments: Presentation	February 1, 2010
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments	July 1, 2010
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards	July 1, 2010
HKAS 24 (Revised)	Related Party Disclosures	January 1, 2011
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	January 1, 2011
HKFRS 9	Financial Instruments	January 1, 2013
Third Annual Improvements project (2010) published in May 2010 by HKICPA		July 1, 2010/January 1, 2011

Apart from the above, a number of improvements and minor amendments to HKFRSs have also been issued by the HKICPA but they are not yet effective for the accounting period ended December 31, 2010 and have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations would be in the period of initial application, but not yet in a position to state whether these amendments, new or revised standards and new interpretations would have a significant impact on the Group's results of operations and financial position.

FIVE YEAR FINANCIAL SUMMARY

For the year ended December 31, 2010

Results In HK$ million	**2010**	2009	2008	2007	2006
Turnover by Principal Activity					
Telecommunications Services	**16,717**	16,292	17,465	16,636	15,374
Mobile	**1,709**	1,670	1,744	1,468	1,236
TV & Content	**2,383**	2,350	2,239	1,703	1,002
PCCW Solutions	**2,108**	1,844	1,866	1,795	1,652
Pacific Century Premium Developments Limited	**1,495**	4,222	9,943	3,134	7,263
Other Businesses	**66**	61	86	249	328
Elimination of inter-segment sales	**(1,516)**	(1,362)	(1,392)	(1,270)	(1,218)
	22,962	25,077	31,951	23,715	25,637
Cost of sales	**(10,533)**	(12,254)	(17,850)	(10,538)	(12,973)
General and administrative expenses	**(8,924)**	(9,029)	(10,005)	(9,144)	(8,904)
Other gains/(losses), net	**1,217**	168	(464)	(3)	42
Losses on property, plant and equipment	**–**	(61)	(103)	(7)	(11)
Interest income	**27**	18	197	429	732
Finance costs	**(1,587)**	(1,485)	(1,473)	(1,658)	(2,008)
Share of results of equity accounted entities	**(82)**	(55)	11	13	37
Impairment losses reversed/(recognized) on interests in associates and jointly controlled companies	**–**	1	(31)	–	–
Profit before income tax	**3,080**	2,380	2,233	2,807	2,552
Income tax	**(756)**	(585)	(711)	(970)	(920)
Profit for the year	**2,324**	1,795	1,522	1,837	1,632
Attributable to:					
Equity holders of the Company	**1,926**	1,506	1,272	1,503	1,252
Non-controlling interests	**398**	289	250	334	380

Assets and Liabilities As at December 31, in HK$ million	**2010**	2009	2008	2007	2006
Total non-current assets	**29,387**	27,934	29,535	29,797	29,711
Total current assets	**18,746**	17,049	27,070	21,560	19,715
Total current liabilities	**(17,744)**	(9,827)	(16,723)	(26,145)	(25,657)
Net current assets/(liabilities)	**1,002**	7,222	10,347	(4,585)	(5,942)
Total assets less current liabilities	**30,389**	35,156	39,882	25,212	23,769
Total non-current liabilities	**(30,997)**	(37,181)	(34,982)	(20,861)	(20,870)
Net (liabilities)/assets	**(608)**	(2,025)	4,900	4,351	2,899

Distributable Reserves of the Company As at December 31, in HK$ million	**2010**	2009	2008	2007	2006
Distributable reserves of the Company	**19,521**	18,843	27,584	46,604	25,475*

* Distributable reserve of HK$25,475 million was subject to an undertaking by the Company in connection with the Company's Capital Reduction in 2004. Please refer to note 33(a) of the Company's 2006 annual report for details.

SCHEDULE OF PRINCIPAL PROPERTIES

Year 2010

Property	Classification	Status	Existing Use	Gross Site Area (sq.m.)	Gross Floor Area (sq.m.)	Lease Term*	Group's Interest
The PRC							
Pacific Century Place, No.2A Gong Ti Bei Lu, Chaoyang District, Beijing, the PRC							
Tower A (except part of 6th, 8th, 10th and 13th Floor for own use)	Investment properties	Existing	Office for lease	29,351	40,077	Medium	62%
Tower B	Investment properties	Existing	Office for lease		17,558	Medium	62%
Tower C	Investment properties	Existing	Residential		21,496	Long	62%
Tower D	Investment properties	Existing	Residential		10,034	Long	62%
Podium	Investment properties	Existing	For lease		75,431	Medium	62%
Car parking spaces	Investment properties	Existing	For lease		812 spaces	Medium	62%
Hong Kong							
Part of 18th Floor of Paramount Building, No.12 Ka Yip Street, Chai Wan, Hong Kong	Investment properties	Existing	For lease	Not applicable	520	Medium	100%

* Lease term:
Long term: Lease not less than 50 years
Medium term: Lease less than 50 years but not less than 10 years

INVESTOR RELATIONS

FINANCIAL CALENDAR

Announcement of 2010 Annual Results	March 22, 2011
Closure of register of members	June 14-17, 2011 (both days inclusive)
Payment of 2010 final dividend	On or around June 28, 2011
2011 Annual General Meeting ("AGM")	June 17, 2011

DIRECTORS

The directors of the Company as at the date of the announcement of the 2010 Annual Results are:

Executive Directors:
Li Tzar Kai, Richard *(Chairman)*
Alexander Anthony Arena *(Group Managing Director)*
Peter Anthony Allen
Lee Chi Hong, Robert
Hui Hon Hing, Susanna *(Group Chief Financial Officer)*

Non-Executive Directors:
Sir David Ford, KBE, LVO
Lu Yimin
Zuo Xunsheng *(Deputy Chairman)*
Li Fushen
Chung Cho Yee, Mico
Tse Sze Wing, Edmund, GBS

Independent Non-Executive Directors:
Professor Chang Hsin-kang, FREng, GBS, JP
Dr. The Hon. Sir David Li Kwok Po, GBM, GBS, OBE, JP
Sir Roger Lobo, CBE, LLD, JP
Aman Mehta
The Hon. Raymond George Hardenbergh Seitz

ANNUAL REPORT 2010

This Annual Report 2010 in both English and Chinese is now available in printed form from the Company and the Company's Share Registrars, and in accessible format on the websites of the Company (www.pccw.com) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk).

Shareholders who:
A) received the Annual Report 2010 by electronic means may request a printed copy, or
B) received the Annual Report 2010 in either English or Chinese may request a printed copy of the other language version

by writing to the Company c/o the Company's Share Registrars at:

Computershare Hong Kong Investor Services Limited
Investor Communications Centre
17M Floor, Hopewell Centre
183 Queen's Road East, Wan Chai, Hong Kong
Fax: +852 2529 6087/+852 2865 0990
Email: pccw@computershare.com.hk

Shareholders who have chosen to receive the Annual Report 2010 by electronic means through the Company's website and who, for any reason, have difficulty in receiving or gaining access to the Annual Report 2010 will promptly, upon request in writing or by email to the Company's Share Registrars - Computershare Hong Kong Investor Services Limited, be sent the Annual Report 2010 in printed form, free of charge.

Shareholders may change their choice of language or means of receipt of the Company's future corporate communications at any time, free of charge, by reasonable prior notice in writing or by email to the Company's Share Registrars.

LISTINGS

The Company's shares are listed on The Stock Exchange of Hong Kong Limited and traded in the form of American Depositary Receipts ("ADRs") on the OTC Markets Group Inc. in the United States. Each ADR represents 10 ordinary shares of the Company. Certain United States Dollar guaranteed notes issued by wholly-owned subsidiaries of the Company are listed on the Luxembourg Stock Exchange and the Singapore Exchange Securities Trading Limited.

ADR holders registered on the books of the ADR Depositary Bank in New York (including beneficial owners) can vote by proxy at the AGM by completing a voting instruction card provided by the Depositary Bank. The Depositary will tabulate and transmit the votes to the Company before the AGM.

Additional information and specific inquiries concerning the Company's ADRs should be directed to the Company's ADR Depositary at the address given on this page.

Other inquiries regarding the Company should be addressed to Investor Relations at the address given on this page.

STOCK CODES

The Stock Exchange of Hong Kong Limited	0008
Reuters	0008.HK
Bloomberg	8 HK
ADRs	PCCWY

SHARE INFORMATION

Board lot:	1,000 shares
Issued shares as at December 31, 2010:	7,272,294,654 shares

DIVIDEND

Dividends per share for the year ended December 31, 2010:

Interim	5.10 HK cents per ordinary share
Final	10.20 HK cents per ordinary share

REGISTRARS

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Telephone: +852 2862 8555 Fax: +852 2529 6087
Email: hkinfo@computershare.com.hk

ADR DEPOSITARY

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PCCW American Depositary Receipts
Citibank Shareholder Services
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Toll free number: +1 877 248 4237
Telephone: +1 781 575 4555
Email: citibank@shareholders-online.com
Website: www.citi.com/dr

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Philana WY Poon

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FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements. These forward-looking statements include, without limitation, statements relating to revenues and earnings. The words “believe”, “intend”, “expect”, “anticipate”, “project”, “estimate”, “predict”, “is confident”, “has confidence” and similar expressions are also intended to identify forward-looking statements. These forward-looking statements are not historical facts. Rather, the forward-looking statements are based on the current beliefs, assumptions, expectations, estimates and projections of the directors and management of PCCW about the business and the industry and markets in which we operate.

These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and are difficult to predict. Consequently, actual results could differ materially from those expressed, implied or forecasted in the forward-looking statements. Factors that could cause actual results to differ materially from those reflected in the forward-looking statements include:

- increased competition in the Hong Kong telecommunications market;
- possible negative effects of potentially new regulatory developments;
- our ability to implement our business plan as a consequence of our substantial debt;
- our exposure to interest rate risk;
- increased competition in the Hong Kong television market;
- our ability to obtain additional capital; and
- our ability to execute our business strategy, including our ability to enter into business combinations and restructuring, strategic investments and acquisitions.

Reliance should not be placed on these forward-looking statements, which reflect the views of the directors and management of PCCW as at the date of this annual report only. We undertake no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after publication of this annual report.

PCCW Limited (Incorporated in Hong Kong with limited liability)

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PCCW shares are listed on The Stock Exchange of Hong Kong Limited (SEHK: 008)
and traded in the form of American Depositary Receipts on the OTC Markets Group Inc. in the US (Ticker:PCCWY).