

CORPORATE GOVERNANCE REPORT

PCCW Limited (“PCCW” or the “Company”) has made continued efforts to incorporate the key elements of sound corporate governance in its management structures and internal control procedures.

PCCW is committed to high standards of ethics and integrity in all aspects of its business, and to ensuring its affairs are conducted in accordance with applicable laws and regulations.

We have adopted a Corporate Responsibility Policy that applies to all employees, including directors and officers, throughout the Group. This sets out standards in the way we go about our business, plus the corporate responsibilities of PCCW employees.

These include guidance on obligations to the Company; civic responsibilities; equal opportunities; safeguarding communications, company information and property; privacy of personal data; prevention of bribery and conflicts of interest; competition; health and safety at work, and the environment. This policy also describes procedures to enable employees to raise concerns with management and directors on a confidential basis.

CORPORATE GOVERNANCE PRACTICES

PCCW has applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) for the year ended December 31, 2005, save for the exceptions explained in the following relevant paragraphs.

MODEL CODE SET OUT IN APPENDIX 10 OF THE LISTING RULES

The Company has established its own code of conduct regarding securities transactions by directors and senior management namely PCCW Code of Conduct for Securities Transactions by Directors & Senior Management (the “PCCW Code”) on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 of the Listing Rules.

Having made specific enquiry of all directors of the Company, they have confirmed that they complied with the required standard set out in the Model Code and the PCCW Code during the accounting period covered by this annual report.

BOARD OF DIRECTORS

The Board is responsible for the management of the Company. Key responsibilities include formulation of the Group’s overall strategies, the setting of management targets and supervision of management performance. The Board confines itself to making broad policy decisions and also 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:

- those functions and matters as set out in the terms of reference of various committees (as amended from time to time), in which Board approval must be sought from time to time;
- those functions and matters in 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 reports and annual reports, announcements and press releases of interim and final results;
- consideration of dividend policy and dividend amount; and
- monitoring the corporate governance of the Group in compliance with the relevant rules and regulations both in Hong Kong and the United States.

The Chairman of PCCW is Li Tzar Kai, Richard and the Group Managing Director is So Chak Kwong, Jack. The role of the Chairman is separate from that of the Group Managing Director. The Chairman is responsible for overseeing the functioning 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 Group and of the profits and cash flows of the Group and are properly prepared in accordance with the Hong Kong Companies Ordinance. In preparing the financial statements for the year ended December 31, 2005, the directors have selected suitable accounting policies and applied them consistently; made judgments 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 which 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 Auditors of the Company about their reporting responsibilities on the financial statements of the Company is set out in the Auditors' Report on page 78.

As at March 29, 2006, the Board comprised 17 directors including 8 Executive Directors, 3 Non-Executive Directors and 6 Independent Non-Executive Directors. Biographies of all the directors are set out on pages 32 to 36 of this annual report.

The Board held five meetings in 2005. The attendance of individual directors is set out in the table below.

The attendance of individual members of the Board and other Board Committees meetings during 2005 is set out in the following table:

Directors	Board	Meetings attended/Eligible to attend		
		Audit Committee	Nomination Committee	Remuneration Committee
Executive Directors				
Li Tzar Kai, Richard (Chairman of the Board)	5/5	–	1/2	–
So Chak Kwong, Jack (Deputy Chairman of the Board and Group Managing Director)	5/5	–	–	–
Yuen Tin Fan, Francis ¹ (Deputy Chairman of the Board)	5/5	–	–	2/2
Peter Anthony Allen	5/5	–	–	–
Alexander Anthony Arena	5/5	–	–	–
Chung Cho Yee, Mico	5/5	–	–	–
Lee Chi Hong, Robert	5/5	–	–	–
Dr Fan Xingcha ²	3/3	–	–	–
Non-Executive Directors				
Sir David Ford	5/5	–	–	–
Zhang Chunjiang ³	1/3	–	0/1	–
Dr Tian Suning ⁴ (Deputy Chairman of the Board)	3/3	–	–	2/2
Independent Non-Executive Directors				
Prof Chang Hsin-kang	5/5	4/4	–	–
Dr Fung Kwok King, Victor	2/5	–	–	–
Dr The Hon Sir Li Kwok Po, David	1/5	2/4	2/2	1/3
Sir Roger Lobo (Chairman of Audit Committee)	5/5	4/4	2/2	3/3
Aman Mehta ⁵ (Chairman of Nomination Committee)	5/5	4/4	2/2	–
The Hon Raymond George Hardenbergh Seitz ⁶ (Chairman of Remuneration Committee)	5/5	–	2/2	3/3

Remarks:

1. Appointed as a member of Remuneration Committee on March 30, 2005.
2. Appointed as a Non-Executive Director on April 1, 2005 and re-designated as an Executive Director on July 1, 2005.
3. Appointed as a Non-Executive Director and a member of Nomination Committee on April 1, 2005.
4. Appointed as Deputy Chairman of the Board, a Non-Executive Director and a member of Remuneration Committee on April 1, 2005.
5. Appointed as a member and Chairman of Nomination Committee on January 18, 2005.
6. Re-designated as an Independent Non-Executive Director and appointed as a member of Nomination Committee on February 1, 2005.

BOARD OF DIRECTORS (CONTINUED)

More than one third of the Board are Independent Non-Executive Directors which exceeds the minimum number required under the Listing Rules. The Company has received an annual written confirmation from each Independent Non-Executive Director to confirm his independence to the Company and accordingly, the Company considers all of the Independent Non-Executive Directors to be independent.

Under code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term, subject to re-election. The Non-Executive Directors of the Company are not appointed for a specific term of office. However, all the directors of the Company are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company's Articles of Association mentioned below.

Under the second part of code provision A.4.2 of the Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. According to the Company's Articles of Association, all directors of the Company are subject to retirement by rotation and one-third of the directors (or, if their number is not a multiple of three, then the number nearest to but not greater than one-third) shall retire from office at each annual general meeting.

In order to ensure full compliance with code provisions A.4.1 and A.4.2, a special resolution will be proposed to amend the relevant articles of the Company's Articles of Association at the forthcoming annual general meeting, so that every director shall be subject to retirement at least once every three years. Following such amendment to the Company's Articles of Association, no director will remain in office for a term of more than three years.

Under the first part of code provision D.1.2 of the Code, an issuer should formalize the functions reserved to the board and those delegated to management. This code provision has been complied with subsequent to June 30, 2005.

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 meets regularly and 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*)
Chung Cho Yee, Mico
Lee Chi Hong, Robert
So Chak Kwong, Jack
Dr Tian Suning
Yuen Tin Fan, Francis

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 Company. 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 Deputy Chairman and 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* directs all the core telecommunications and business solutions operations.

EXECUTIVE COMMITTEE AND SUB-COMMITTEES

(CONTINUED)

A *Disclosure Committee* has been established, comprising senior members of PCCW's Group Finance, Group Legal, Corporate Secretariat, Group Internal Audit and Risk Management departments. The committee meets to review the procedures for the preparation and contents of PCCW's annual reports on Form 20-F to the U.S. Securities and Exchange Commission to ensure compliance with the U.S. Securities Exchange Act and the U.S. Sarbanes-Oxley Act ("SOA") and reports to the Finance and Management Committee on an ad hoc basis.

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

REMUNERATION COMMITTEE

The Remuneration Committee was formed in May 2003. Its primary objective is to ensure PCCW is able to attract, retain and motivate high-calibre employees who will underpin the success of the Company and enhance the value of the Company to its shareholders. The Remuneration Committee is responsible for overseeing the establishment and operation of formal and transparent procedures for developing the remuneration packages of directors. 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 which 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 Li Kwok Po, David

Sir Roger Lobo

Dr Tian Suning

Yuen Tin Fan, Francis

The Company's objective for its 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 of Directors, 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:

- business requirements;

- individual performance and contributions to results;
- 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 three times in 2005. The record of attendance of individual directors at the committee meetings is set out in the table on page 38.

The following is a summary of work performed by the Remuneration Committee during 2005:

- grant of share options to directors, employees and other eligible persons;
- recommendation for Non-Executive Directors' fees for 2005 to the Board for approval;
- review of the remuneration of directors and senior management;
- review and approval of the remuneration packages and service contracts for Executive Directors; and
- administration of the share option scheme, share award purchase scheme and share incentive award scheme.

Details of emoluments of each director are set out in the Financial Statements on page 124 to 127.

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 and 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 new appointment of directors to the Board. The committee will first consider necessary changes in respect of the structure, size and composition of the board, identify suitably qualified candidates and makes recommendation to the Board for decision. In accordance with the Articles of Association of the Company, every newly appointed director is subject to re-election at the following annual general meeting.

The Nomination Committee comprises six members, a majority of whom are Independent Non-Executive Directors.

NOMINATION COMMITTEE (CONTINUED)

Members of the Nomination Committee are:

Aman Mehta (*Chairman*)

Dr The Hon Sir Li Kwok Po, David

Li Tzar Kai, Richard

Sir Roger Lobo

The Hon Raymond George Hardenbergh Seitz

Zhang Chunjiang

The Nomination Committee met twice in 2005. The attendance of individual directors at the committee meetings is set out in the table on page 38.

The following is a summary of work performed by the Nomination Committee during 2005:

- (i) consideration of the independence of The Hon Raymond George Hardenbergh Seitz in relation to the redesignation of Mr Seitz as Independent Non-Executive Director and approval of this change of status effective February 1, 2005;
- (ii) consideration of the appointment of Mr Zhang Chunjiang, Dr Tian Suning and Dr Fan Xingcha as the Non-Executive Directors, and the appointment of Dr Tian Suning as Deputy Chairman of the Company in connection with the subscription of an approximately 20% interest in the Company by China Netcom Corporation (BVI) Limited and recommendation to the Board for approval relating to these appointments;
- (iii) recommendation to the Board for approval relating to the retiring directors, namely Prof Chang Hsin-kang, Dr Fung Kwok King, Victor, The Hon Raymond George Hardenbergh Seitz, Mr Yuen Tin Fan, Francis, Mr Zhang Chunjiang, Dr Tian Suning and Dr Fan Xingcha, for re-election at the annual general meeting held on May 23, 2005;
- (iv) consideration of the independence of all the Independent Non-Executive Directors;
- (v) consideration and approval of the redesignation of Dr Fan Xingcha as an Executive Director with effect from July 1, 2005; and
- (vi) review of the structure and composition of the Board.

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 the 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 the external auditors. To ensure auditor 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.

Each member of the Audit Committee is an Independent Non-Executive Director. Members of the Audit Committee are: Sir Roger Lobo (*Chairman*)

Prof Chang Hsin-kang

Dr The Hon Sir Li Kwok Po, David

Aman Mehta

The Audit Committee is provided with sufficient resources to discharge its duties and meets regularly with management, internal auditors and external auditors and reviews their reports. During 2005, the committee met four times. The attendance of individual directors at the committee meetings is set out in the table on page 38.

The following is a summary of work performed by the Audit Committee during 2005:

- (i) review of the annual report and results announcement for the year ended December 31, 2004, with a recommendation to the Board for approval;
- (ii) review of the report of the Disclosure Committee relating to the 2004 Annual Report on Form 20-F ("20-F");
- (iii) review and approval of the Form 20-F, summary 20-F and announcement of 20-F;
- (iv) review of the external auditors' independence and report, with recommendation to the Board for the re-appointment of the external auditors at the 2005 annual general meeting;
- (v) review of the interim report and the interim results announcement for the six months ended June 30, 2005, with a recommendation to the Board for approval;
- (vi) review of the Group Internal Audit reports;
- (vii) review of the progress report on compliance with SOA;
- (viii) review of the revised terms of reference of the Audit Committee to conform to the Listed Company Manual of the U.S. New York Stock Exchange, Inc.;
- (ix) consideration and approval of audit and non-audit services; and
- (x) review of the continuing connected transactions.

AUDIT COMMITTEE (CONTINUED)

For the year ended December 31, 2005, the Auditors of the Company and its subsidiaries received approximately HK\$16 million for audit services (2004: HK\$14 million) and HK\$13 million for non-audit services (2004: HK\$14 million). The significant non-audit services covered by these fees include the following:

Nature of service	Fees paid (HK\$million)
Professional fee on compliance with SOA	4
Tax services	4
Due diligence services	2
Special report on bond issuance	1
Other services	2
	13

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 Limited and its subsidiaries and Cheung Kong (Holdings) Limited and its subsidiaries. This is to ensure all dealings between these entities are conducted on arm's-length terms.

Members of the Regulatory Compliance Committee are:

Sir Roger Lobo (*Chairman*)
 Alexander Anthony Arena
 Prof Chang Hsin-kang
 Dr Fung Kwok King, Victor
 Dr The Hon Sir Li Kwok Po, David
 Zhang Chunjiang

INTERNAL CONTROLS

The directors are responsible for maintaining and reviewing the effectiveness of internal controls in PCCW and its subsidiaries. Procedures have been designed for safeguarding assets against unauthorized use or disposition, for maintaining proper accounting records and ensuring the reliability of financial information used within the business or for publication. 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 or fraud.

The Company is listed on the New York Stock Exchange, Inc. and accordingly, must comply with the stringent requirements of the SOA. A key requirement of the SOA is to ensure the effectiveness of internal controls and financial reporting by requiring annual certifications as to these matters by the management of the Company. To this end, the Company has established a task force to ensure that as and when the various requirements of the SOA come into force, they can be fully complied by the Company. We believe that this will enhance the Company's corporate governance and business practices in the future.

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

GROUP INTERNAL AUDIT

Group Internal Audit was established to provide 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 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. All audit reports are communicated to the Audit Committee and key members of executive and senior management. Audit issues are tracked and followed up for proper implementation, with progress reported to the Audit Committee, executive and senior management periodically.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company encourages two-way communication with its institutional, retail and private investors; and 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.

In addition to dispatching these corporate documentation to shareholders, financial and other information relating to the Group and its business activities is disclosed on the Company's website (www.pccw.com), in order to promote effective communication.

Regular dialogue takes place with the investment community. Enquiries 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. Relevant contact information is provided on page 192 of this report.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS *(CONTINUED)*

Shareholders are encouraged to attend the annual general meeting of the Company for which at least 21 days' notice is given. At such meeting, directors are available to answer questions on the business of the Group.

Under the first part of code provision E.1.2 of the Code, the chairman of the board should attend annual general meetings. The Chairman of the Board was not able to attend the annual general meeting of the Company held on May 23, 2005 as he had another business engagement.

On behalf of the Board

Hubert Chak

Company Secretary

Hong Kong, March 29, 2006