

# REPORT OF THE DIRECTORS

The directors present their annual report together with the audited consolidated financial statements of PCCW Limited (the “Company”) and its subsidiaries (the “Group”) for the year ended December 31, 2005.

## PRINCIPAL ACTIVITIES

The principal activities of the Group are the provision of local, mobile and international telecommunications services, Internet and interactive multimedia services, the sale and rental of telecommunications equipment, and the provision of computer, engineering and other technical services, mainly in the Hong Kong Special Administrative Region (“Hong Kong”); investment in, and development of, systems integration and technology-related businesses; and investment in, and development of, infrastructure and properties in Hong Kong and elsewhere in mainland China.

Details of segment information are set out in note 7 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2005 are set out in the accompanying consolidated financial statements on page 79.

An interim dividend of 6.5 HK cents (2004: 5.5 HK cents) per ordinary share, totaling approximately HK\$437 million (2004: HK\$295 million), was paid to shareholders of the Company in October 2005.

The board of directors (the “Board”) recommends the payment of a final dividend of 12 HK cents (2004: 9.6 HK cents) per ordinary share for the year ended December 31, 2005 to shareholders whose names appear on the Register of Members of the Company on May 24, 2006 and payable on or around May 30, 2006. The Register of Members will be closed from May 22, 2006 to May 24, 2006, both days inclusive.

## 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 190.

## SUBSIDIARIES, JOINTLY CONTROLLED COMPANIES AND ASSOCIATES

Particulars of the Company’s principal subsidiaries, jointly controlled companies and associates are set out in notes 23 to 25 to the consolidated financial statements.

## FIXED ASSETS

Details of the movements in the Group’s and the Company’s property, plant and equipment, the Group’s investment properties and interests in leasehold land held for own use under operating leases during the year are set out in notes 17 to 19 to the consolidated financial statements.

## BORROWINGS AND CONVERTIBLE BONDS

Particulars of the Group’s and the Company’s borrowings and convertible bonds are set out in notes 27(f) and 28 to the consolidated financial statements.

## SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 31 to the consolidated financial statements.

Pursuant to the ordinary resolution passed on March 16, 2005, the authorized share capital of the Company was increased from HK\$1,600,000,000 to HK\$2,500,000,000 by the creation of 3,600,000,000 new ordinary shares of HK\$0.25 each, such shares ranking pari passu in all aspects with the existing ordinary shares of HK\$0.25 each in the issued capital of the Company.

## RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in note 34 to the consolidated financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2005, 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 purchase 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 were:

### Executive Directors

Li Tzar Kai, Richard *Chairman*

So Chak Kwong, Jack *Deputy Chairman and Group Managing Director*

Yuen Tin Fan, Francis *Deputy Chairman*

Peter Anthony Allen

Alexander Anthony Arena

Chung Cho Yee, Mico

Lee Chi Hong, Robert

Dr Fan Xingcha

(appointed as Non-Executive Director on April 1, 2005 and re-designated as Executive Director on July 1, 2005)

### Non-Executive Directors

Sir David Ford, KBE, LVO

Zhang Chunjiang

Dr Tian Suning *Deputy Chairman*

(appointed on April 1, 2005)

(appointed on April 1, 2005)

### Independent Non-Executive Directors

Professor Chang Hsin-kang

Dr Fung Kwok King, Victor

Dr The Hon Sir Li Kwok Po, David, GBS, OBE, JP

Sir Roger Lobo, CBE, LLD, JP

Aman Mehta

The Hon Raymond George Hardenbergh Seitz

In accordance with Articles 101A, 101B and 101C of the Company's Articles of Association, Peter Anthony Allen, Chung Cho Yee, Mico, Lee Chi Hong, Robert, Sir David Ford and Sir Roger Lobo shall retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

## 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 on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and considers the independent non-executive directors to be independent.

## DIRECTORS' SERVICE CONTRACTS

So Chak Kwong, Jack entered into a service contract with the Company for a period of 3 years commencing on July 25, 2003. So Chak Kwong, Jack's service contract provides for a compensation payment from the Company for early termination by the Company during the term of the contract.

Save as disclosed above, 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 EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at December 31, 2005, the directors and chief executive 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 corporations (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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules:

### 1. The Company

#### A. 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 executive of the Company.

Name of Directors/ Chief Executive	Personal interests	Number of ordinary shares			Number of underlying shares held under equity derivatives	Total	Percentage of issued share capital
		Family interests	Corporate interests	Other interests			
Li Tzar Kai, Richard	–	–	36,295,600 <i>(Note 1(a))</i>	1,746,122,668 <i>(Note 1(b))</i>	679,000 <i>(Note 1(c))</i>	1,783,097,268	26.52%
So Chak Kwong, Jack	4,322,000	–	–	–	17,661,000 <i>(Note 3)</i>	21,983,000	0.33%
Yuen Tin Fan, Francis	–	–	–	–	20,068,000 <i>(Note 2)</i>	20,068,000	0.30%
Peter Anthony Allen	253,200	–	–	–	4,629,200 <i>(Note 2)</i>	4,882,400	0.07%
Alexander Anthony Arena	760,000	–	–	–	15,800,200 <i>(Note 4)</i>	16,560,200	0.25%
Chung Cho Yee, Mico	1,176,260	18,455 <i>(Note 5)</i>	–	–	14,390,400 <i>(Note 2)</i>	15,585,115	0.23%
Lee Chi Hong, Robert	992,600 <i>(Note 6(a))</i>	511 <i>(Note 6(b))</i>	–	–	6,000,000 <i>(Note 2)</i>	6,993,111	0.10%
Dr Fan Xingcha	–	–	–	–	7,000,000 <i>(Note 2)</i>	7,000,000	0.104%
Sir David Ford	–	–	–	–	4,000,000 <i>(Note 2)</i>	4,000,000	0.06%
Prof Chang Hsin-kang	64,000	–	–	–	–	64,000	0.001%
Dr The Hon Sir Li Kwok Po, David	600,000	–	–	–	–	600,000	0.01%

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (CONTINUED)

### 1. The Company (continued)

#### A. Interests in the Company (continued)

##### Notes:

1. (a) Of these shares, Pacific Century Diversified Limited ("PCD"), a wholly-owned subsidiary of Chiltonlink Limited, held 2,548,600 shares and Eisner Investments Limited held 33,747,000 shares. Li Tzar Kai, Richard owns 100% of Chiltonlink Limited and Eisner Investments Limited.  
  
(b) These interests represented:
  - (i) a deemed interest in 36,726,857 shares of 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 in the trustee companies which acted as trustees of such discretionary trusts and unit trusts. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 36,726,857 shares of the Company held by Yue Shun Limited;
  - (ii) a deemed interest in 20,354,286 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 20,354,286 shares of the Company held by PCGH;
  - (iii) a deemed interest in 1,526,094,301 shares of the Company held by Pacific Century Regional Developments Limited ("PCRD"), a company in which PCGH had, through certain wholly-owned subsidiaries including Anglang Investments Limited, Pacific Century Group (Cayman Islands) Limited, Pacific Century International Limited and Borsington Limited, an aggregate 75.33% interest. Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 1,526,094,301 shares of the Company held by PCRD; and
  - (iv) a deemed interest in 162,947,224 shares of the Company held by a collective investment scheme in which PCD (a corporation 100% controlled by Li Tzar Kai, Richard - see above) was a holder.
- (c) This number represents interests under listed equity derivatives arising through corporations controlled by PCGH in which Li Tzar Kai, Richard was deemed interested as the founder of certain trusts which held 100% of PCGH and comprises an interest in 679,000 underlying shares held by PCRD in the form of 67,900 American Depositary Receipts ("ADRs"), each representing 10 shares of the Company.
2. 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".
3. These interests represented So Chak Kwong, Jack's beneficial interest in: (i) 2,161,000 underlying shares which will be transferred to him on the third anniversary of his employment with the Company pursuant to an agreement made with PCD which constituted unlisted physically settled equity derivatives; and (ii) 15,500,000 underlying shares in respect of share options granted by the Company to So Chak Kwong, Jack as beneficial owner, the details of which are set out in the section headed "SHARE OPTION SCHEMES".
4. These interests represented Alexander Anthony Arena's beneficial interest in: (i) 200 underlying shares held in the form of 20 ADRs which constituted listed equity derivatives; and (ii) 15,800,000 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".
5. These shares were held by the spouse of Chung Cho Yee, Mico.
6. (a) These shares were held jointly by Lee Chi Hong, Robert and his spouse.  
  
(b) These shares were held by the spouse of Lee Chi Hong, Robert.

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

Under the SFO, Li Tzar Kai, Richard was deemed as at December 31, 2005 to have short positions held pursuant to equity derivatives in respect of an aggregate of 234,000,258 underlying shares of the Company, representing 3.48% of the total issued share capital of the Company. Details of such short positions are as follows:

- (a) a short position in respect of 231,839,258 underlying shares of the Company (such shares being beneficially held by PCRD) which arose under certain unlisted physically settled equity derivatives issued by PCRD pursuant to which the derivative holders have the right to call for the delivery of 231,839,258 shares of the Company. Li Tzar Kai, Richard's deemed short position arose as the founder of certain trusts which held 100% of PCGH of which PCRD is a controlled corporation under the SFO; and

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (CONTINUED)

### 1. The Company (continued)

#### B. Short Positions in the Shares and Underlying Shares of the Company (continued)

(b) through PCD (a corporation 100% controlled by Li Tzar Kai, Richard – see note 1.(a) of the sub-section headed “Interests in the Company”) a short position in respect of 2,161,000 underlying shares of the Company which arose under an agreement entered into with So Chak Kwong, Jack, such interest constituted, for the purposes of the SFO, a short position of a corporation controlled by Li Tzar Kai, Richard under an unlisted physically settled equity derivative pursuant to which such shares of the Company will be transferred to So Chak Kwong, Jack on the third anniversary of his employment with the Company.

### 2. Interests in Associated Corporation of the Company

The table below sets out the aggregate long positions in the shares and underlying shares of Pacific Century Premium Developments Limited (“PCPD”) held by the directors and chief executive of the Company.

Name of Directors/ Chief Executive	Personal interests	Number of ordinary shares			Number of underlying shares held under equity derivatives	Total	Percentage of issued share capital
		Family interests	Corporate interests	Other interests			
So Chak Kwong, Jack	–	–	–	–	5,000,000	5,000,000	0.21%
Chung Cho Yee, Mico	–	–	–	–	5,000,000	5,000,000	0.21%

The above interests represented the interests in underlying shares in respect of share options granted by PCPD to the directors and chief executive of the Company as beneficial owners pursuant to PCPD's share option scheme, the details of which are set out in the section headed “SHARE OPTION SCHEMES”.

Save as disclosed in the foregoing, none of the directors or chief executive 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.

## 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, it 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, amongst 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 in the Company subject to the terms and conditions stipulated therein. Following the 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, 2005, the total number of shares of the Company that may be issued upon exercise of all share options granted and yet to be exercised under the 2004 Scheme was 72,599,000, which represented 1.08% of the issued share capital of the Company as at that date. As at December 31, 2005, the total number of shares of the Company that may be issued upon exercise of all share options granted and yet to be exercised under the 1994 Scheme was 158,899,073, which represented 2.36% 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 upon 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 in general meeting.

The period within which an option may be exercised under each of the Schemes will be determined by the Board in 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 in 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, 2005 are as follows:

## A. 1994 Scheme

## (1) Outstanding options at January 1, 2005 and at December 31, 2005

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 01.01.2005	Outstanding at 12.31.2005
<b>Directors/Chief Executive</b>						
So Chak Kwong, Jack	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	12,000,000	12,000,000
Yuen Tin Fan, Francis	08.28.1999	08.17.2000 to 08.17.2004	08.17.2003 to 08.17.2009	11.7800	2,134,000	2,134,000
	08.26.2000	08.26.2001 to 08.26.2005	08.26.2001 to 08.26.2010	60.1200	3,200,000	3,200,000
	02.20.2001	08.26.2001 to 08.26.2005	08.26.2001 to 01.22.2011	16.8400	3,200,000	3,200,000
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	8,534,000	8,534,000
Peter Anthony Allen	08.28.1999	08.17.2000 to 08.17.2002	08.17.2000 to 08.17.2009	11.7800	272,000	272,000
	08.26.2000	08.26.2001 to 08.26.2005	08.26.2001 to 08.26.2010	60.1200	178,600	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
Alexander Anthony Arena	08.28.1999	08.17.2000 to 08.17.2004	08.17.2000 to 08.17.2009	11.7800	3,200,000	3,200,000
	08.26.2000	08.26.2001 to 08.26.2005	08.26.2001 to 08.26.2010	60.1200	1,600,000	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
Chung Cho Yee, Mico	08.28.1999	08.17.2000 to 08.17.2004	08.17.2001 to 08.17.2009	11.7800	3,575,200	3,575,200
	08.26.2000	08.26.2001 to 08.26.2005	08.26.2001 to 08.26.2010	60.1200	1,060,000	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
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
Sir David Ford	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

## SHARE OPTION SCHEMES (CONTINUED)

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

#### A. 1994 Scheme (continued)

#### (1) Outstanding options at January 1, 2005 and at December 31, 2005 (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 01.01.2005	Outstanding at 12.31.2005
<b>Employees</b>						
In aggregate	08.17.1999 to 09.15.1999	(Note 3)	08.17.2000 to 08.17.2009	11.7800	9,691,190	6,430,925
	10.25.1999 to 11.23.1999	(Note 3)	10.25.2000 to 10.25.2009	22.7600	3,432,400	3,370,400
	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	86,700
	08.26.2000 to 09.24.2000	(Note 4)	(Note 4)	60.1200	3,908,000	1,048,600
	10.27.2000 to 11.25.2000	(Note 5)	(Note 5)	24.3600	11,085,070	9,989,790
	01.22.2001 to 02.20.2001	(Note 6)	(Note 6)	16.8400	11,156,718	7,529,852
	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 7)	(Note 7)	10.3000	1,324,360	1,147,040
	07.16.2001 to 09.15.2001	07.16.2002 to 07.16.2004	07.16.2002 to 07.16.2011	9.1600	648,600	365,760
	10.15.2001 to 11.13.2001	10.15.2002 to 10.15.2004	10.15.2002 to 10.15.2011	8.6400	292,000	–
	05.10.2002	(Note 3)	04.11.2003 to 04.11.2012	7.9150	231,700	86,700
	06.19.2002	(Note 8)	(Note 8)	10.0900	179,000	–
	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	6,860,000	6,820,000
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	62,282,678	46,939,006
	09.16.2003	09.16.2004 to 09.15.2006	09.16.2004 to 09.14.2013	4.9000	1,190,000	190,000
<b>Others</b>						
	08.17.1999 to 09.15.1999	(Note 3)	08.17.2000 to 08.17.2009	11.7800	–	800,000
	08.26.2000 to 09.24.2000	(Note 4)	(Note 4)	60.1200	–	2,800,000
	01.22.2001 to 02.20.2001	(Note 6)	(Note 6)	16.8400	–	2,800,000
	10.15.2001 to 11.13.2001	10.15.2002 to 10.15.2004	10.15.2002 to 10.15.2011	8.6400	–	120,000
	10.11.2002	Fully vested on 10.11.2002	10.11.2002 to 10.10.2007	8.6165	1,200,000	1,200,000
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	2,000,000	4,000,000



## 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, 2005

Name or category of participant	Date of grant (Note 1)	Vesting period (Note 1)	Exercisable period (Note 1)	Exercise price HK\$	Number of shares acquired on exercise of options	Weighted average closing price of the shares immediately before the dates on which the options were exercised HK\$
<b>Employees</b>						
In aggregate	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	5,185,663	5.0470

During the year under review, no share options were exercised by any directors or chief executive of the Company, employees of the Company and its subsidiaries (the "Group") or other participants save as disclosed above.

## (3) Options cancelled or lapsed during the year ended December 31, 2005

Name or category of participant	Exercise price HK\$	Number of options cancelled	Number of options lapsed
<b>Employees</b>			
In aggregate	11.7800	–	2,460,265
	22.7600	–	62,000
	60.1200	–	59,400
	24.3600	–	1,095,280
	16.8400	–	826,866
	10.3000	–	177,320
	9.1600	–	282,840
	8.6400	–	172,000
	7.9150	–	145,000
	10.0900	–	179,000
	6.1500	–	40,000
	4.3500	–	8,158,009
	4.9000	–	1,000,000

## SHARE OPTION SCHEMES (CONTINUED)

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

#### B. 2004 Scheme

##### (1) Outstanding options at January 1, 2005 and at December 31, 2005

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 01.01.2005	Outstanding at 12.31.2005
<b>Directors/Chief Executive</b>						
So Chak Kwong, Jack	02.08.2005	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.4750	–	3,500,000
Yuen Tin Fan, Francis	02.08.2005	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.4750	–	3,000,000
Peter Anthony Allen	02.08.2005	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.4750	–	2,000,000
Alexander Anthony Arena	02.08.2005	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.4750	–	3,000,000
Chung Cho Yee, Mico	02.08.2005	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.4750	–	3,000,000
Lee Chi Hong, Robert	02.08.2005	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.4750	–	1,000,000
Dr Fan Xingcha	09.01.2005	09.01.2006 to 09.01.2008	09.01.2006 to 08.31.2010	5.2500	–	7,000,000
Sir David Ford	02.08.2005	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.4750	–	2,000,000
<b>Employees</b>						
In aggregate	02.08.2005	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.4750	–	48,099,000

## SHARE OPTION SCHEMES (CONTINUED)

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

## B. 2004 Scheme (continued)

## (2) Options granted during the year ended December 31, 2005

Name or category of participant	Date of grant (Note 1)	Vesting period (Note 1)	Exercisable period (Note 1)	Exercise price HK\$	Number of options granted	Closing price of the shares immediately before the date on which the options were granted HK\$
<b>Directors/Chief Executive</b>						
So Chak Kwong, Jack	02.08.2005	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.4750	3,500,000	4.50
Yuen Tin Fan, Francis	02.08.2005	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.4750	3,000,000	4.50
Peter Anthony Allen	02.08.2005	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.4750	2,000,000	4.50
Alexander Anthony Arena	02.08.2005	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.4750	3,000,000	4.50
Chung Cho Yee, Mico	02.08.2005	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.4750	3,000,000	4.50
Lee Chi Hong, Robert	02.08.2005	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.4750	1,000,000	4.50
Dr Fan Xingcha	09.01.2005	09.01.2006 to 09.01.2008	09.01.2006 to 08.31.2010	5.2500	7,000,000	5.10
Sir David Ford	02.08.2005	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.4750	2,000,000	4.50
<b>Employees</b>						
In aggregate	02.08.2005	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.4750	51,424,000	4.50

The weighted average values per option granted during the year ended December 31, 2005 estimated at the date of grant using the trinomial option pricing model was HK\$0.99. The weighted average assumptions used are as follows:

	2005	2004
Risk-free interest rate	2.54%	—
Expected life (in years)	4.09	—
Volatility	0.32	—
Expected dividend per share	HK\$0.15	—

## SHARE OPTION SCHEMES (CONTINUED)

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

#### B. 2004 Scheme (continued)

##### (2) Options granted during the year ended December 31, 2005 (continued)

The trinomial option pricing model was developed for use in estimating the fair value of traded options that are fully transferable. Such an option pricing model requires input of highly subjective assumptions, including the expected stock price volatility. Because the Company's share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the trinomial option pricing model does not necessarily provide a reliable measure of the fair value of the share options.

The accounting policy adopted for the share options is described in note 2(cc)(iii) to the consolidated financial statements.

##### (3) Options exercised during the year ended December 31, 2005

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

##### (4) Options cancelled or lapsed during the year ended December 31, 2005

Name or category of participant	Exercise price HK\$	Number of options cancelled	Number of options lapsed
<b>Employees</b>			
In aggregate	4.4750	–	3,325,000

### 2. Share Option Schemes of Subsidiaries 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"), particulars of which are set out in note 33(e) to the consolidated financial statements. 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 33(e) 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 in PCPD subject to the terms and conditions stipulated in the 2005 PCPD Scheme.

**SHARE OPTION SCHEMES (CONTINUED)****2. Share Option Schemes of Subsidiaries 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, 2005 are as follows:

**2003 PCPD Scheme****(1) Outstanding options at January 1, 2005 and at December 31, 2005**

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 01.01.2005	Outstanding at 12.31.2005
<b>Directors/Chief Executive of the Company</b>						
So Chak Kwong, Jack	12.20.2004	Fully vested on 12.20.2004	12.20.2004 to 12.19.2014	2.375	5,000,000	5,000,000
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, 2005, 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 10,000,000, which represented 0.42% of the issued share capital of PCPD as at that date.

**(2) Options granted during the year ended December 31, 2005**

During the year under review, no share options were granted to any directors or chief executive of the Company or other participants (as defined in the 2003 PCPD Scheme).

**(3) Options exercised during the year ended December 31, 2005**

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

**(4) Options cancelled or lapsed during the year ended December 31, 2005**

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.

## SHARE OPTION SCHEMES (CONTINUED)

### 2. Share Option Schemes of Subsidiaries of the Company (continued)

#### B. SUNDAY Communications Limited (“SUNDAY”)

SUNDAY, an indirect non wholly-owned subsidiary of the Company, adopted a share option scheme on March 1, 2000 (the “2000 SUNDAY Scheme”), particulars of which are set out in note 33(f) to the consolidated financial statements. On May 22, 2002, the shareholders of SUNDAY approved the adoption of a new share option scheme (the “2002 SUNDAY Scheme”), particulars of which are set out in note 33(f) to the consolidated financial statements, and termination of the 2000 SUNDAY Scheme. Upon the termination of the 2000 SUNDAY Scheme, no further share options will be granted thereunder but the provisions of the 2000 SUNDAY Scheme will remain in full force and effect in respect of the existing options granted. The board of directors of SUNDAY may, at its discretion, grant share options to any eligible person to subscribe for shares in SUNDAY subject to the terms and conditions stipulated in the 2002 SUNDAY Scheme.

Details of the share options outstanding under the 2000 SUNDAY Scheme and movements during the year ended December 31, 2005 are as follows:

#### 2000 SUNDAY Scheme

##### (1) Outstanding options at January 1, 2005 and at December 31, 2005

Name or category of participant	Date of grant (Note 1)	Vesting period	Exercisable until (Notes 1 and 9)	Exercise price HK\$	Number of options	
					Outstanding at 01.01.2005	Outstanding at 12.31.2005
<b>Employees</b>						
In aggregate	03.23.2000	(Note 9)	03.22.2010	3.05	13,194,076	–
	05.31.2000	(Note 9)	05.30.2010	1.01	13,737,971	–
	05.31.2000	(Note 9)	05.30.2010	3.05	255,844	–
	01.19.2001	(Note 9)	01.18.2011	1.01	1,442,198	–

##### (2) Options exercised during the year ended December 31, 2005

During the year under review, no share options were exercised.

##### (3) Options cancelled or lapsed during the year ended December 31, 2005

Name or category of participant	Date of grant (Note 1)	Exercise price HK\$	Number of options	
			cancelled	lapsed
<b>Employees</b>				
In aggregate	03.23.2000	3.05	12,632,274	561,802
	05.31.2000	1.01	12,976,337	761,634
	05.31.2000	3.05	155,929	99,915
	01.19.2001	1.01	1,233,891	208,307

## SHARE OPTION SCHEMES (CONTINUED)

### 2. Share Option Schemes of Subsidiaries of the Company (continued)

#### B. SUNDAY Communications Limited ("SUNDAY") (continued)

##### 2002 SUNDAY Scheme

No share options have been granted under the 2002 SUNDAY 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 the first anniversary of the offer date of such options (the "Offer Date") and ending on either the third or fifth anniversary of the Offer Date inclusive.
4. 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 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.
5. 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.
6. 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.
7. 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.
8. These options vest in installments during a period starting from: (i) the date of grant and ending on either May 26, 2003 or October 27, 2003 inclusive; or (ii) May 21, 2003 and ending on May 21, 2005 inclusive. All these options are exercisable in installments from the commencement of the relevant vesting period until the tenth anniversary of the Offer Date.
9. Of the share options granted, 40% are vested and become exercisable after one year from the date of grant and 30% per annum during the following two years.
10. During the year, certain reclassifications were made between "Employees" and "Others" under the share option schemes of the Company.

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 which 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 executive 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, 2005, the following persons (other than any directors or chief executive 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	Percentage of issued share capital
<b>Interests</b>			
PCRD	1	1,526,773,301	22.71%
PCGH	2	1,547,127,587	23.01%
Star Ocean Ultimate Limited	3	1,547,127,587	23.01%
The Ocean Trust	3	1,547,127,587	23.01%
The Starlite Trust	3	1,547,127,587	23.01%
OS Holdings Limited	3	1,547,127,587	23.01%
Ocean Star Management Limited	3	1,547,127,587	23.01%
The Ocean Unit Trust	3	1,547,127,587	23.01%
The Starlite Unit Trust	3	1,547,127,587	23.01%
China Network Communications Group Corporation (“China Netcom Group”)	4	1,343,571,766	19.985%
<b>Short Positions</b>			
PCRD	5	231,839,258	3.45%
PCGH	5	231,839,258	3.45%
Star Ocean Ultimate Limited	5	231,839,258	3.45%
The Ocean Trust	5	231,839,258	3.45%
The Starlite Trust	5	231,839,258	3.45%
OS Holdings Limited	5	231,839,258	3.45%
Ocean Star Management Limited	5	231,839,258	3.45%
The Ocean Unit Trust	5	231,839,258	3.45%
The Starlite Unit Trust	5	231,839,258	3.45%

### Notes:

- These interests represented PCRD's beneficial interests in 1,526,094,301 shares and 679,000 underlying shares held in the form of 67,900 ADRs which constituted listed equity derivatives.
- These interests represented (i) PCGH's beneficial interests in 20,354,286 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 75.33% of PCRD) in shares and underlying shares of the Company held by PCRD (as described in Note 1 above).
- 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.
- China Netcom Group indirectly holds these interests through its indirect wholly-owned subsidiary China Netcom Corporation (BVI) Limited.
- PCGH, Star Ocean Ultimate Limited, The Ocean Trust, The Starlite Trust, OS Holdings Limited, Ocean Star Management Limited, The Ocean Unit Trust and The Starlite Unit Trust were deemed to have short positions in the same underlying shares held by PCRD, under the SFO pursuant to the arrangements as described in the sub-section headed “Short Positions in the Shares and Underlying Shares of the Company”.



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

As at December 31, 2005, the following persons (not being the directors or chief executive or substantial shareholders (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 of shareholder		Number of shares/underlying shares held	Percentage of issued share capital
<b>Interests</b>			
Ocean Star Investment Management Limited	Note	1,547,127,587	23.01%
<b>Short Positions</b>			
Ocean Star Investment Management Limited	Note	231,839,258	3.45%

**Note:**

Ocean Star Investment Management Limited was deemed interested and to have short positions under the SFO in the shares and underlying 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 of 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 person (other than any directors or chief executive 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, 2005.

**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

The interests of the directors of the Company in competing business as at December 31, 2005 required to be disclosed pursuant to Rule 8.10 of the Listing Rules were as follows:

Name of Directors	Names of companies	Nature of business	Nature of interests
Li Tzar Kai, Richard	Cheung Kong and its subsidiaries ("Cheung Kong Group")	Property development and investment, hotel and serviced suite operation, property and project management and investment in securities	Deemed interests in Cheung Kong (Note 1)
	HWL and its subsidiaries ("Hutchison Group")	Ports and related services, property and hotels, retail and manufacturing, energy, infrastructure, finance and investments, and telecommunications	Certain personal and deemed interests in HWL (Note 2)
Yuen Tin Fan, Francis	Kee Shing (Holdings) Limited ("KSH") and its subsidiaries	Sale of chemicals and metals, property and securities investment	Non-executive director and deemed interests of 22.84% of KSH through a controlled corporation and as founder of a trust
Chung Cho Yee, Mico (Note 3)	Capital Strategic Investment Limited ("CSI") and its subsidiaries	Property investment and securities investment	Non-executive director and beneficial owner of 36.64% of CSI
Zhang Chunjiang	China Netcom Group and its subsidiaries including China Netcom Group Corporation (Hong Kong) Limited ("CNC HK")	(Note 4)	President of China Netcom Group and Chairman and Executive Director of CNC HK
Dr Tian Suning	China Netcom Group and its subsidiaries including CNC HK	(Note 4)	Chief Executive Officer of China Netcom Group and Vice Chairman, Executive Director and Chief Executive Officer of CNC HK
	AsialInfo Holdings Inc.	Provider of high quality software and solutions in the PRC	Director

**DIRECTORS' INTERESTS IN COMPETING BUSINESS (CONTINUED)**

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

Further, Li Tzar Kai, Richard, Yuen Tin Fan, Francis, Peter Anthony Allen and Alexander Anthony Arena are directors of PCRDR. PCRDR acts as an investment holding company of, among others, interests in the Company and property investments in India and Vietnam.

The business interests of the Private Companies in Hong Kong are not significant when compared to the business of the Group and it is unlikely that such businesses will compete with the property business of the Group. The businesses in Japan, India and Vietnam, are also unlikely to compete with the existing investment and development property portfolio 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 PCRDR and PCGH due to the interests as disclosed in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations" in this report.

As those companies disclosed above, which might have competing businesses with the Group, 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 arms 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.

During the year, the directors of the Company have ceased the following interests in the competing business required to be disclosed pursuant to Rule 8.10 of the Listing Rules:

Name of Directors	Names of companies	Nature of business	Nature of interests
Dr Tian Suning	Trend Mico Incorporated	Provision of network antivirus and Internet content security software and services	Director
	TCL Corporation	Manufacturer of multimedia electronics, home electronics appliances, telecommunication equipments, information components and electronics components	Independent Director
Dr Fan Xingcha	Certain subsidiaries of China Netcom Group and CNC HK	(Note 4)	Director

## DIRECTORS' INTERESTS IN COMPETING BUSINESS (CONTINUED)

### Notes:

1. Certain business of the Cheung Kong Group may compete with certain aspects of the business of the Group. Li Tzar Kai, Richard is one of the discretionary beneficiaries of certain discretionary trusts which hold units in unit trusts which in turn are interested in certain shares of Cheung Kong. Li Tzar Kai, Richard holds one-third of the issued share capitals of two companies, which own all the shares in the trustee companies which act as trustees of such discretionary trusts and unit trusts. These trustee companies perform their functions as trustees independently without any reference to Li Tzar Kai, Richard. Notwithstanding the above, his being a discretionary beneficiary and that the trustee companies act independently of him, the Company considers that Li Tzar Kai, Richard is not able to exert control or influence over the Cheung Kong Group.
2. Li Tzar Kai, Richard was a director of HWL and certain of its subsidiaries until 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 capitals of two companies, which own all the shares in the trustee companies which act as trustees of such discretionary trusts and unit trusts. These trustee companies perform their functions as trustees independently without any reference to Li Tzar Kai, Richard. Notwithstanding the above, and in view of his small personal shareholding, his being a discretionary beneficiary and that the trustee companies act independently of him, the Company considers that Li Tzar Kai, Richard is not able to exert control or influence over the Hutchison Group.
3. Chung Cho Yee, Mico holds direct personal interest in a private company, which engages in property investment or development in Repulse Bay, Hong Kong.
4. China Netcom Group is a state-owned enterprise established under the laws of the PRC. It is principally engaged in the provision of telecommunications services in the PRC and is the holder of more than 70% of CNC HK, whose shares are listed and traded on the Stock Exchange. CNC HK provides fixed-line telecommunications services including fixed-line telephone services, broadband and other Internet-related services, business and data communications services, and international telecommunications services in the PRC and the Asia-Pacific region.

## CHARITABLE DONATIONS

During the year, the Group made charitable donations of approximately HK\$3.2 million (2004: Nil).

## POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events are set out in note 45 to the consolidated financial statements.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the listed securities of the Company.

## CONNECTED TRANSACTIONS

In the period since the publication of the Company's 2004 Annual Report, members of the Group entered into (or continued to be party to) certain transactions which were "connected transactions" as defined by the Listing Rules and which are subject to disclosure obligations under Chapter 14A of the Listing Rules. Details of such transactions are as follows:

### 1. Connected Transactions made with China Telecommunications Corporation ("China Telecom") and its subsidiaries and associates ("China Telecom Group")

The Group from time to time enters into transactions with China Telecom Group ("CTC Transactions") relating to the services provided and to be provided by the Group relating to solutions and system integration services, project management, advisory, training, application development, design, maintenance and implementation services, equipment and equipment installation products and services that support a variety of telecommunications products and services within the PRC, voice and data communication products and services (including without limitation to bandwidth services), and the acquisition or sale or delivery of international and associated domestic connectivity products and services and/or telephone traffic minutes of use ("Services").

Unihub China Information Technology Company Limited ("UCIT") is a 50%: 50% equity joint venture 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. Accordingly, members of China Telecom Group are connected persons (as defined in the Listing Rules) of the Company and transactions between the Group and China Telecom Group will constitute connected transactions for the Company under the Listing Rules.

**CONNECTED TRANSACTIONS (CONTINUED)**

**1. Connected Transactions made with China Telecommunications Corporation (“China Telecom”) and its subsidiaries and associates (“China Telecom Group”) (continued)**

The consideration for each of the CTC Transactions is a fixed sum set out in the relevant agreements between the relevant parties for a fixed term of not more than 3 years, settled by way of cash 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 China Telecom 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.

Given the anticipated recurring nature of the Services to be provided by the Group to China Telecom Group, the CTC Transactions constitute continuing connected transactions under Rule 14A.34 of the Listing Rules. As disclosed in the Company’s announcement dated August 27, 2004, the annual cap of the CTC Transactions during each of the three financial years ending December 31, 2006 is approximately HK\$563,000,000. The CTC Transactions will only be subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and no shareholders’ approval will be required if the aggregate value of the CTC Transactions on an annual basis does not exceed 2.5% of each of the percentage ratios (other than profits ratio) of the Listing Rules.

The aggregate value for the CTC Transactions between the Group and China Telecom Group for the year ended December 31, 2005 was approximately HK\$561 million.

The Board, including the independent non-executive directors of the Company, has reviewed and confirmed that the CTC Transactions for the year ended December 31, 2005 were entered into:

- (i) in the ordinary and usual course of the business of the Group;
- (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from 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.

In addition, the Auditors of the Company confirmed to the Board in writing in respect of the CTC Transactions for the year ended December 31, 2005 that the CTC Transactions:

- (i) were approved by the Board;
- (ii) were in accordance with the pricing policies of the Group if the CTC Transactions involve provision of goods or services by the Group;
- (iii) were entered into in accordance with the relevant agreements governing the CTC Transactions; and
- (iv) did not exceed the annual cap disclosed in the CTC Announcement.

**2. Connected Transactions made with China Network Communications Group Corporation (“China Netcom Group”) and its subsidiaries and associates (“CNC Group”)**

On April 1, 2005, the Company announced that China Netcom Corporation (BVI) Limited (“China Netcom (BVI)”), an indirect wholly-owned subsidiary of China Netcom Group, completed its subscription for approximately 20% of the issued share capital of the Company (the “Subscription”).

China Netcom (BVI) is a substantial shareholder and connected person (as defined in the Listing Rules) of the Company. Accordingly, members of CNC Group including China Netcom Group, China Netcom (Group) Company Limited, China Netcom Holding (as defined below) and CNCBB (as defined below) are connected persons of the Company under the Listing Rules. The following transactions between the Group and CNC Group constitute connected transactions for the Company under Chapter 14A of the Listing Rules since April 1, 2005.

**(a) Financial Arrangements with China Netcom Group for Equipment Purchases**

On April 1, 2005, the Company announced the below business arrangement between the Group and CNC Group would continue after completion of the Subscription.

## CONNECTED TRANSACTIONS (CONTINUED)

### 2. Connected Transactions made with China Network Communications Group Corporation (“China Netcom Group”) and its subsidiaries and associates (“CNC Group”) (continued)

#### (a) Financial Arrangements with China Netcom Group for Equipment Purchases (continued)

On September 12, 1995, PCCW-HKT Limited (then known as Hong Kong Telecommunications Limited) (“HKTL”) entered into a Memorandum of Agreement on the financial arrangement for the equipment purchases (“Memorandum”) with the Ministry of Posts & Telecommunications (“MPT”) of the PRC in support of the Beijing-Jiujiang-Guangzhou Optical Fibre Cable System Project (the “Project”).

Under the Memorandum, HKTL agreed to provide financing of up to US\$70 million to MPT (the “Loan”). The Loan is repayable in 20 equal half-yearly instalments over 10 years, with a two-year grace period and a fixed interest rate of 4% per annum payable on the amount of the outstanding balance. The Loan is to be used to settle the equipment purchases for the Project. The first principal repayment date was May 31, 1998 and thereafter principal and interest is required to be paid once every 6 months.

On August 31, 1998, a supplemental agreement was entered into between MPT and HKTL (the “Supplemental Agreement”), under which the total loan amount of US\$70 million was divided into two phases. For phase 1, the amount of US\$45,445,914 had been fully drawn and the remaining balance of US\$24,554,086 would be treated as the phase 2 Loan.

On June 21, 1999, MPT, HKTL, the Ministry of Information Industry of the People’s Republic of China (“MII”), and the Directorate General of Telecommunications P&T, China (the “DGT”) entered into a novation agreement (the “Novation”) to novate all the rights and obligations under the Memorandum and the Supplemental Agreement to DGT. Due to the reform of the institutions under the State Council of the PRC on March 10, 1998, MII was created to replace and take over the administrative functions and powers of MPT. Consequently MII assumed all the rights, indebtedness, obligations and liabilities of MPT. Under the Novation, MII and MPT nominated DGT to assume all the rights and obligations under the Loan.

On December 8, 2003, HKTL, China Telecom, previously known as DGT, and China Netcom Group entered into another novation agreement (the “Second Novation”). Under the Second Novation, China Netcom Group assumed the rights and obligations under the Loan.

The final repayment of the Loan is due on May 31, 2010. As at December 31, 2005, the outstanding principal amount of the Loan is US\$12.71 million, which exceeds 0.1% but is less than 2.5% of the relevant percentage ratios under Rule 14A.32 of the Listing Rules. Accordingly, the arrangement described above is only subject to reporting and announcement requirements under Chapter 14A of the Listing Rules.

#### (b) Provision of System Integration and Consultancy Services to CNC Group

On July 13, 2005, the Company announced that 電訊盈科(北京)有限公司 (“PCCW Beijing”), a company incorporated in the PRC and a wholly-owned subsidiary of the Company, agreed to enter into nine Enterprise Resource Planning (“ERP”) agreements (“ERP Agreements”) with China Netcom Group and China Netcom (Group) Company Limited on or before August 31, 2005 (“ERP Transaction”) relating to the provision of system integration and consultancy services for establishing ERP system to CNC Group in nine northern provinces of the PRC which are Tianjin Municipality, Hebei Province, Henan Province, Shandong Province, Liaoning Province, Shanxi Province, Jilin Province, Heilongjiang Province and the Inner Mongolia Autonomous Region. The ERP Agreements were entered on August 31, 2005.

The aggregate value of the ERP Transaction was approximately RMB96,070,000 (approximately HK\$91,495,000).

#### (c) Acquisition of 50% interests in 網通寬帶網絡有限責任公司 (“CNCBB”) from CNC Group

On August 25, 2005, the Company announced that PCCW IMS China Development Limited (“PCCW IMS China”), an indirect wholly-owned subsidiary of the Company, entered into the Framework Agreement (the “Framework Agreement”) with China Netcom Group and CNCBB to acquire from CNC Group 50% of the registered capital of CNCBB, a limited liability company established in the PRC. Details of the Framework Agreement have been set out in the Company’s announcement dated August 25, 2005 (“First Announcement”).

Further to the First Announcement, the Company announced on March 2, 2006 that PCCW IMS China entered into the Sale and Purchase Agreement (the “Sale and Purchase Agreement”) with China Netcom Group and 中國網絡通信(控股)有限公司 (“China Netcom Holding”) (as vendors) and CNCBB (as the target company) whereby PCCW IMS China would acquire an aggregate of 50% of the registered capital of CNCBB in accordance with the terms of the Sale and Purchase Agreement as more particularly described in the Company’s announcement dated March 2, 2006.

**CONNECTED TRANSACTIONS (CONTINUED)****2. Connected Transactions made with China Network Communications Group Corporation (“China Netcom Group”) and its subsidiaries and associates (“CNC Group”) (continued)****(c) Acquisition of 50% interests in 網通寬帶網絡有限責任公司 (“CNCBB”) from CNC Group (continued)**

The Sale and Purchase Agreement was entered on March 2, 2006 which are substantially based on the framework set out in the Framework Agreement.

The consideration for the acquisition of 50% interests in CNCBB from CNC Group was RMB318,000,000 (approximately HK\$305,770,000), payable in Hong Kong dollars.

**(d) Continuing Connected Transactions made between the Group and CNC Group**

On August 12, 2005, the Company announced that the Group from time to time enters into transactions with CNC Group relating to the acquisition and provision of certain information technology services and products. Details of which have been disclosed in the Company’s announcement dated August 12, 2005 (“CNC Announcement”). These transactions constitute continuing connected transactions of the Company under Rule 14A.14 of the Listing Rules and are classified into the following categories based on the nature of the transactions (“CNC Transactions”):

- (1) Provision of data services by the Group to CNC Group;
- (2) Provision of data services by CNC Group to the Group; and
- (3) Provision of system integration services by the Group to CNC Group.

The consideration for each of the above CNC Transactions under the different categories is a fixed sum set out in the agreement between the parties, settled by way of cash and determined by arm’s length negotiations between the parties with reference to (i) the estimated costs of the provision of the relevant services to and/or from CNC 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 CNC Transaction will not exceed 3 years, other than those capacity purchase and sale contracts relating to the grant of indefeasible rights to use bandwidth capacity (“IRU Contracts”) available on both groups’ network to and/or from the CNC Group.

The Group may from time to time enter into capacity purchase or sale contracts relating to the IRU Contracts which are categorized under data services (as mentioned above) and are part of the normal commercial activities of the Group. As disclosed in the CNC Announcement, Access Capital Limited, the independent financial advisor appointed under Rule 14A.35(1) confirmed that it is normal business practice for the duration of the IRU Contracts to exceed 3 years or up to 15 years.

Given the anticipated recurring nature of the CNC Transactions, the Directors set a maximum aggregate annual value (“CNC Annual Cap”) for each category of the CNC Transactions as disclosed in the CNC Announcement. The aggregate value and the CNC Annual Cap of each category of the CNC Transactions for the period from April 1, 2005 (the date of completion of the Subscription) to December 31, 2005 are as follows:

Category	Aggregate Value	CNC Annual Cap
	For the 9 months’ period from April 1, 2005 to December 31, 2005 (HK\$’000)	For the 9 months’ period from April 1, 2005 to December 31, 2005 (HK\$’000)
(1) Provision of data services by the Group to CNC Group	8,338	150,000
(2) Provision of data services by CNC Group to the Group	29,912	61,000
(3) Provision of system integration services by the Group to CNC Group	127,262	246,800

## CONNECTED TRANSACTIONS (CONTINUED)

### 2. Connected Transactions made with China Network Communications Group Corporation (“China Netcom Group”) and its subsidiaries and associates (“CNC Group”) (continued)

#### (d) Continuing Connected Transactions made between the Group and CNC Group (continued)

The Board, including the independent non-executive directors of the Company, has reviewed and confirmed that the CNC Transactions for the period from April 1, 2005 to December 31, 2005 were entered into:

- (i) in the ordinary and usual course of the business of the Group;
- (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from 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.

In addition, the Auditors of the Company confirmed to the Board in writing in respect of the CNC Transactions for the period from April 1, 2005 to December 31, 2005 that the CNC Transactions:

- (i) were approved by the Board;
- (ii) were in accordance with the pricing policies of the Group if the CNC Transactions involve provision of goods or services by the Group;
- (iii) were entered into in accordance with the relevant agreements governing the CNC Transactions; and
- (iv) did not exceed the CNC Annual Cap disclosed in the CNC Announcement.

## RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in normal course of business are set out in note 5 to the consolidated financial statements in relation to those related party transactions which 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.

## AUDITORS

The financial statements for the financial year ended December 31, 2005 have been audited by PricewaterhouseCoopers who will retire upon conclusion of the forthcoming annual general meeting. A resolution for the re-appointment of PricewaterhouseCoopers as Auditors of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

### Hubert Chak

*Company Secretary*

Hong Kong,

March 29, 2006