

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 (collectively the “Group”) for the year ended December 31, 2006.

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 6 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2006 are set out in the accompanying consolidated financial statements on page 74.

An interim dividend of 6.5 HK cents (2005: 6.5 HK cents) per ordinary share, totaling approximately HK\$438 million (2005: HK\$437 million), was paid to shareholders of the Company in October 2006.

The board of directors (the “Board”) recommends the payment of a final dividend of 12 HK cents (2005: 12 HK cents) per ordinary share for the year ended December 31, 2006 to shareholders whose names appear on the Register of Members of the Company on May 31, 2007 and payable on or around June 6, 2007. The Register of Members will be closed from May 29, 2007 to May 31, 2007, 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 162.

SUBSIDIARIES, JOINTLY CONTROLLED COMPANIES AND ASSOCIATES

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

FIXED ASSETS

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

BORROWINGS AND CONVERTIBLE BONDS

Particulars of the Group’s and the Company’s borrowings and convertible bonds are set out in notes 26(g) and 27 to the consolidated financial statements.

SHARE CAPITAL

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

RESERVES

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2006, the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover. The aggregate amount of purchases attributable to the Group's five largest suppliers represented less than 30% of the Group's total purchases.

DIRECTORS

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

Executive Directors

Li Tzar Kai, Richard *Chairman*

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

Peter Anthony Allen

Alexander Anthony Arena

Chung Cho Yee, Mico

Lee Chi Hong, Robert

Dr Fan Xingcha

Yuen Tin Fan, Francis *Deputy Chairman*

(resigned on June 5, 2006)

Non-Executive Directors

Sir David Ford, KBE, LVO

Zhang Chunjiang

Dr Tian Suning *Deputy Chairman*

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

On March 28, 2007, So Chak Kwong, Jack resigned as Executive Director, Deputy Chairman and Group Managing Director and Alexander Anthony Arena has been appointed by the Board as Group Managing Director of the Company, both with effect from April 30, 2007.

In accordance with Article 101A of the Company's Articles of Association, Li Tzar Kai, Richard, Alexander Anthony Arena, Dr Fung Kwok King, Victor, Dr The Hon Sir Li Kwok Po, David, Aman Mehta and The Hon Raymond George Hardenbergh Seitz shall retire by rotation at the forthcoming annual general meeting of the Company. With the exception of Dr Fung Kwok King, Victor who does not offer himself for re-election, all the other retiring directors, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

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 that all the independent non-executive directors are independent.

DIRECTORS' SERVICE CONTRACTS

So Chak Kwong, Jack entered into a service contract with an indirect wholly-owned subsidiary of the Company on June 17, 2003 for a period of 3 years commencing July 25, 2003. This service contract provided for a compensation payment for early termination by the Company during the term of the contract. On March 29, 2006, So Chak Kwong, Jack entered into a new service contract with an indirect wholly-owned subsidiary of the Company for a period of 3 years commencing July 26, 2006 (on expiry of his first contract). His service contract provides for a compensation payment up to a maximum of 12 months' salary and housing benefits from the Company for early termination by the Company prior to the expiry of his contract, other than an early termination by the Company for cause or due to his sickness or disability.

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).

REPORT OF THE DIRECTORS (CONTINUED)

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, 2006, 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. 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	–	–	250,109,824 <i>(Note 1(a))</i>	1,590,377,444 <i>(Note 1(b))</i>	–	1,840,487,268	27.27%
So Chak Kwong, Jack	6,483,000	–	–	–	47,000,000 <i>(Note 2)</i>	53,483,000	0.79%
Peter Anthony Allen	253,200	–	–	–	4,629,200 <i>(Note 3)</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 3)</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 3)</i>	6,993,111	0.10%
Dr Fan Xingcha	–	–	–	–	7,000,000 <i>(Note 3)</i>	7,000,000	0.10%
Sir David Ford	–	–	–	–	3,000,000 <i>(Note 3)</i>	3,000,000	0.04%
Prof Chang Hsin-kang	64,000	–	–	–	–	64,000	0.001%
Dr The Hon Sir Li Kwok Po, David	600,000	–	–	–	–	600,000	0.009%

Notes:

1. (a) Of these shares, Pacific Century Diversified Limited ("PCD"), a wholly-owned subsidiary of Chiltonlink Limited, held 216,362,824 shares and Eisner Investments Limited held 33,747,000 shares. Li Tzar Kai, Richard owns 100% of Chiltonlink Limited and Eisner Investments Limited.
- (b) These interests represented:
 - (i) a deemed interest in 36,726,857 shares of the Company held by Yue Shun Limited, a subsidiary of Hutchison Whampoa Limited ("HWL"). Cheung Kong (Holdings) Limited ("Cheung Kong") through certain subsidiaries held more than one-third of the issued share capital of HWL. Li Tzar Kai, Richard was a discretionary beneficiary of certain discretionary trusts which held units in unit trusts which in turn held interests in certain shares of Cheung Kong and HWL. Li Tzar Kai, Richard was also interested in one-third of the issued share capital of two companies, which owned all the shares of the trustee companies which acted as trustees of such discretionary trusts and unit trusts. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 36,726,857 shares of the Company held by Yue Shun Limited;
 - (ii) a deemed interest in 26,877,286 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 26,877,286 shares of the Company held by PCGH; 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. Interests in the Company (continued)

Notes: (continued)

1. (b) (continued)
 - (iii) a deemed interest in 1,526,773,301 shares of the Company held by Pacific Century Regional Developments Limited ("PCRD"), a company in which PCGH had, through certain wholly-owned subsidiaries being Anglang Investments Limited, Pacific Century Group (Cayman Islands) Limited, Pacific Century International Limited and Borsington Limited, an aggregate of 75.33% interest. Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 1,526,773,301 shares of the Company held by PCRD.
2. These interests represented So Chak Kwong, Jack's beneficial interest in:
 - (a) 40,500,000 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" of this report; and
 - (b) 6,500,000 underlying shares in respect of the shares granted by the Company to So Chak Kwong, Jack as beneficial owner.
3. These interests represented the interests in underlying shares in respect of share options granted by the Company to these directors as beneficial owners, the details of which are set out in the section headed "SHARE OPTION SCHEMES" of this report.
4. These interests represented Alexander Anthony Arena's beneficial interest in: (a) 200 underlying shares held in the form of 20 American Depositary Receipts which constituted listed equity derivatives; and (b) 15,800,000 underlying shares in respect of share options granted by the Company to Alexander Anthony Arena as beneficial owner, the details of which are set out in the section headed "SHARE OPTION SCHEMES" of this report.
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.

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			Other interests	Number of underlying shares held under equity derivatives	Total	Percentage of issued share capital
		Family interests	Corporate 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" of this report.

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

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

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

The maximum number of shares in respect of which options may be granted under the 2004 Scheme shall not in aggregate exceed 10% of the shares of the Company in issue as at the date of approval of such scheme. As at December 31, 2006, 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 84,293,500, which represented 1.25% of the issued share capital of the Company as at that date. As at December 31, 2006, the total number of shares of the Company that may be issued on exercise of all share options granted and yet to be exercised under the 1994 Scheme was 126,823,328, which represented 1.88% of the issued share capital of the Company as at that date. The maximum entitlement for any eligible person (other than a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates) under the Schemes is that the total number of shares issued and to be issued on exercise of all options granted and to be granted in any 12-month period up to and including the date of the latest grant does not exceed 1% of the shares of the Company in issue at the relevant time. Any further grant of share options in excess of this limit is subject to shareholders' approval in general meeting.

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

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

SHARE OPTION SCHEMES (CONTINUED)**1. Share Option Schemes of the Company (continued)**

Details of the share options outstanding and movements during the year ended December 31, 2006 are as follows:

A. 1994 Scheme**(1) Outstanding options at January 1, 2006 and at December 31, 2006**

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 01.01.2006	Outstanding at 12.31.2006
Directors/Chief Executive						
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
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	1,000,000
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	(Note 8)
	08.26.2000	08.26.2001 to 08.26.2005	08.26.2001 to 08.26.2010	60.1200	3,200,000	(Note 8)
	02.20.2001	08.26.2001 to 08.26.2005	08.26.2001 to 01.22.2011	16.8400	3,200,000	(Note 8)
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	8,534,000	(Note 8)

REPORT OF THE DIRECTORS (CONTINUED)

SHARE OPTION SCHEMES (CONTINUED)

1. Share Option Schemes of the Company (continued)

A. 1994 Scheme (continued)

(1) Outstanding options at January 1, 2006 and at December 31, 2006 (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 01.01.2006	Outstanding at 12.31.2006
Employees						
In aggregate	08.17.1999 to 09.15.1999	(Note 3)	08.17.2000 to 08.17.2009	11.7800	6,430,925	6,289,858
	10.25.1999 to 11.23.1999	(Note 3)	10.25.2000 to 10.25.2009	22.7600	3,370,400	3,184,400
	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	1,048,600	932,600
	10.27.2000 to 11.25.2000	(Note 5)	(Note 5)	24.3600	9,989,790	9,218,282
	01.22.2001 to 02.20.2001	(Note 6)	(Note 6)	16.8400	7,529,852	7,035,239
	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	1,147,040	1,122,560
	07.16.2001 to 09.15.2001	07.16.2002 to 07.16.2004	07.16.2002 to 07.16.2011	9.1600	365,760	272,680
	05.10.2002	(Note 3)	04.11.2003 to 04.11.2012	7.9150	86,700	86,700
	08.01.2002	08.01.2003 to 08.01.2005	08.01.2003 to 07.31.2012	8.0600	200,000	200,000
	11.13.2002	11.13.2003 to 11.13.2005	11.13.2003 to 11.12.2012	6.1500	6,820,000	6,680,000
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	46,939,006	35,577,675
	09.16.2003	09.16.2004 to 09.16.2006	09.16.2004 to 09.14.2013	4.9000	190,000	177,000
Others	08.17.1999 to 09.15.1999	(Note 3)	08.17.2000 to 08.17.2009	11.7800	800,000	800,000
	08.26.2000 to 09.24.2000	(Note 4)	(Note 4)	60.1200	2,800,000	2,800,000
	01.22.2001 to 02.20.2001	(Note 6)	(Note 6)	16.8400	2,800,000	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	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	4,000,000	3,333,334

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, 2006**

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\$
Director						
Sir David Ford	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	1,000,000	5.3982
Employees						
In aggregate	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	16,153,661	5.2166
	09.16.2003	09.16.2004 to 09.16.2006	09.16.2004 to 09.14.2013	4.9000	13,000	5.6000
Others						
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	666,666	5.5725

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

(3) Options cancelled or lapsed during the year ended December 31, 2006

Name or category of participant	Exercise price HK\$	Number of options cancelled	Number of options lapsed
Employees			
In aggregate	11.7800	–	2,275,067
	22.7600	–	186,000
	60.1200	–	3,316,000
	24.3600	–	771,508
	16.8400	–	3,694,613
	10.3000	–	24,480
	9.1600	–	93,080
	6.1500	–	140,000
	4.3500	–	3,741,670

REPORT OF THE DIRECTORS (CONTINUED)

SHARE OPTION SCHEMES (CONTINUED)

1. Share Option Schemes of the Company (continued)

B. 2004 Scheme

(1) Outstanding options at January 1, 2006 and at December 31, 2006

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 01.01.2006	Outstanding at 12.31.2006
Directors/Chief Executive						
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	3,500,000
	09.15.2006	09.15.2007 to 09.15.2009	09.15.2007 to 09.14.2010	4.9240	–	25,000,000
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	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	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	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	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	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	2,000,000
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	(Note 8)
Employees						
In aggregate	02.08.2005	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.4750	48,099,000	37,793,500

(2) Options granted during the year ended December 31, 2006

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\$
Directors/Chief Executive						
So Chak Kwong, Jack	09.15.2006	09.15.2007 to 09.15.2009	09.15.2007 to 09.14.2010	4.9240	25,000,000	4.9600

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, 2006 (continued)**

The weighted average values per option granted during the year ended December 31, 2006 estimated at the date of grant using the trinomial option pricing model was HK\$0.95. The weighted average assumptions used are as follows:

	2006	2005
Risk-free interest rate	3.94%	2.54%
Expected life (in years)	4.00	4.09
Volatility	0.28	0.32
Expected dividend per share	HK\$0.185	HK\$0.15

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(dd)(iii) to the consolidated financial statements.

(3) Options exercised during the year ended December 31, 2006

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\$
Employees						
In aggregate	02.08.2005	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.4750	9,317,500	5.3797

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

(4) Options cancelled or lapsed during the year ended December 31, 2006

Name or category of participant	Exercise price HK\$	Number of options cancelled	Number of options lapsed
Employees			
In aggregate	4.4750	–	3,988,000

REPORT OF THE DIRECTORS (CONTINUED)

SHARE OPTION SCHEMES (CONTINUED)

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"), which was valid for 10 years after the date of adoption. In order to align the terms of the share option scheme of PCPD with those of the Company and in view of the limited number of shares capable of being issued under the 2003 PCPD Scheme relative to the current capital base of PCPD, the shareholders of PCPD approved the termination of the 2003 PCPD Scheme and the adoption of a new share option scheme (the "2005 PCPD Scheme"), particulars of which are set out in note 32(d) 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.

Details of the share options outstanding under the 2003 PCPD Scheme and movements during the year ended December 31, 2006 are as follows:

2003 PCPD Scheme

(1) Outstanding options at January 1, 2006 and at December 31, 2006

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 01.01.2006	Outstanding at 12.31.2006
Directors/Chief Executive of the Company						
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, 2006, 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, 2006

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, 2006

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, 2006

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 (in voluntary liquidation) (“SUNDAY”)**

SUNDAY, an indirect non wholly-owned subsidiary of the Company, adopted a share option scheme on March 1, 2000 (the “2000 SUNDAY Scheme”). On May 22, 2002, the shareholders of SUNDAY approved the adoption of a new share option scheme (the “2002 SUNDAY Scheme”) and termination of the 2000 SUNDAY Scheme. On termination of the 2000 SUNDAY Scheme, no further share options will be granted thereunder. No share options were outstanding during the year under review under the 2000 SUNDAY Scheme. 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. 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. The outstanding share options were reclassified to “Employees” under the share option scheme 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 that may enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors or chief 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.

REPORT OF THE DIRECTORS (CONTINUED)

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at December 31, 2006, 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
Interests			
PCRD		1,526,773,301	22.62%
PCGH	1	1,553,650,587	23.02%
Star Ocean Ultimate Limited	2	1,553,650,587	23.02%
The Ocean Trust	2	1,553,650,587	23.02%
The Starlite Trust	2	1,553,650,587	23.02%
OS Holdings Limited	2	1,553,650,587	23.02%
Ocean Star Management Limited	2	1,553,650,587	23.02%
The Ocean Unit Trust	2	1,553,650,587	23.02%
The Starlite Unit Trust	2	1,553,650,587	23.02%
China Network Communications Group Corporation ("China Netcom Group")	3	1,343,571,766	19.90%

Notes:

- These interests represented (i) PCGH's beneficial interests in 26,877,286 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 1,526,773,301 shares held by PCRD.
- 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.

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

As at December 31, 2006, 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	Note	Number of shares/underlying shares held	Percentage of issued share capital
Interests			
Ocean Star Investment Management Limited	Note	1,553,650,587	23.02%

Note:

Ocean Star Investment Management Limited was deemed interested under the SFO in the shares of the Company by virtue of it being the investment manager of The Ocean Unit Trust and The Starlite Unit Trust which together held 100% of PCGH (see the Notes 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, 2006.

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, 2006 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 (the "Cheung Kong Group")	Property development and investment, hotel and serviced suite operation, property and project management and investment in securities	Deemed interests in Cheung Kong (<i>Note 1</i>)
	HWL and its subsidiaries (the "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 (<i>Note 2</i>)
Chung Cho Yee, Mico (<i>Note 3</i>)	Capital Strategic Investment Limited ("CSI") and its subsidiaries	Property investment and securities investment	Non-Executive Chairman and beneficial owner of 34.23% of CSI
Zhang Chunjiang	China Netcom Group and its subsidiaries including China Netcom Group Corporation (Hong Kong) Limited ("CNC HK")	(<i>Note 4</i>)	Chairman of China Netcom Group and Chairman and Executive Director of CNC HK
Dr Tian Suning	China Netcom Group and its subsidiaries including CNC HK	(<i>Note 4</i>)	Chief Executive Officer of China Netcom Group and Vice Chairman and Non-Executive Director of CNC HK
	AsiaInfo Holdings Inc.	Provider of high quality software and solutions in the PRC	Director

REPORT OF THE DIRECTORS (CONTINUED)

DIRECTORS' INTERESTS IN COMPETING BUSINESS (CONTINUED)

In addition, Li Tzar Kai, Richard, 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 Japan (investments in certain residential properties). Subsequent to the year end, Alexander Anthony Arena ceased to be a director of the Private Companies.

Further, Li Tzar Kai, Richard, 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 investments in India and Vietnam.

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

Li Tzar Kai, Richard has a controlling interest in some of the Private Companies. Further, he is or may be regarded as interested in 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" of this report.

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

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

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

Notes:

1. Certain businesses of the Cheung Kong Group may compete with certain aspects of the business of the Group. Li Tzar Kai, Richard is one of the discretionary beneficiaries of certain discretionary trusts which hold units in unit trusts which in turn are interested in certain shares of Cheung Kong. Li Tzar Kai, Richard holds one-third of the issued share capital of two companies, which own all the shares in the trustee companies which act as trustees of such discretionary trusts and unit trusts. These trustee companies perform their functions as trustees independently without any reference to Li Tzar Kai, Richard. In view of the above, the Company considers that Li Tzar Kai, Richard is not able to exert control or influence over the Cheung Kong Group.
2. Li Tzar Kai, Richard was a director of HWL and certain of its subsidiaries until August 16, 2000, the day before the acquisition of Cable & Wireless HKT Limited (now known as PCCW-HKT Limited) became effective. Certain businesses of the Hutchison Group compete with certain aspects of the business of the Group. Li Tzar Kai, Richard has a personal interest in 110,000 shares in HWL, and is one of the discretionary beneficiaries of certain discretionary trusts which hold units in unit trusts which in turn are interested in certain shares of HWL. Li Tzar Kai, Richard holds one-third of the issued share capital of two companies, which own all the shares in the trustee companies which act as trustees of such discretionary trusts and unit trusts. These trustee companies perform their functions as trustees independently without any reference to Li Tzar Kai, Richard. In view of the above, the Company considers that Li Tzar Kai, Richard is not able to exert control or influence over the Hutchison Group.
3. 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 engaged principally 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\$0.1 million (2005: HK\$3.2 million).

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events are set out in note 43 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.

CONTINUING CONNECTED TRANSACTIONS

Certain transactions entered into by the Group constituted continuing connected transactions under the Listing Rules. Details of the transactions are set out as follows:

1. China Telecommunications Corporation (“China Telecom”) and its subsidiaries and associates (collectively, the “China Telecom Group”)

The Group from time to time enters into transactions with the China Telecom Group (the “CTC Transactions”) relating to the services provided and to be provided by the Group relating to solutions and systems integration services, project management, advisory, training, applications 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 communications 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 (the “Services”).

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

Given the anticipated recurring nature of the Services to be provided by the Group to the China Telecom Group, the CTC Transactions constitute continuing connected transactions for the Company under the Listing Rules. As disclosed in the Company’s announcement dated August 27, 2004, the annual cap of the CTC Transactions for the financial year ending December 31, 2006 is HK\$563 million and 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 the 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.

The aggregate value of the CTC Transactions made between the Group and the China Telecom Group for the year ended December 31, 2006 was approximately HK\$552 million.

As referred to in the Company’s announcement dated February 15, 2007 (the “CTC Announcement”), the Company set an annual cap for each of the following categories of transactions for the three financial years ending December 31, 2009 based on the nature of the transactions from time to time entered into with the China Telecom Group:

- (1) Provision of data services by the Group to the China Telecom Group;
- (2) Provision of data services by the China Telecom Group to the Group; and
- (3) Provision of systems integration services by the Group to the China Telecom Group.

As disclosed in the CTC Announcement, the Group may from time to time enter into capacity purchase or sales contracts relating to the grant of indefeasible rights to use bandwidth capacity (the “IRU Contracts”) available on both groups’ networks to and/or from the China Telecom Group. The IRU Contracts are categorised under data services (as mentioned above) and are part of the normal commercial services of the Group. Access Capital Limited, the independent financial adviser appointed in accordance with the Listing Rules, confirmed that it is normal business practice for the duration of the IRU Contracts to exceed 3 years and be for a term up to 15 years.

REPORT OF THE DIRECTORS (CONTINUED)

CONTINUING CONNECTED TRANSACTIONS (CONTINUED)**2. China Network Communications Group Corporation (“China Netcom Group”) and its subsidiaries and associates (collectively, the “CNC Group”)**

On August 12, 2005, the Company announced that the Group from time to time enters into transactions with the CNC Group relating to the acquisition and provision of certain information technology services and products. China Netcom Corporation (BVI) Limited, an indirect wholly-owned subsidiary of China Netcom Group, is a substantial shareholder and connected person of the Company. Accordingly, the transactions between the Group and the CNC Group constitute continuing connected transactions for the Company under the Listing Rules and are classified into the following categories based on the nature of the transactions (the “CNC Transactions”):

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

The consideration for each of the above categories of CNC Transactions is a fixed sum set out in the relevant agreements between the relevant parties, 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 and/or from the 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 (the “IRU Contracts”) available on both groups’ networks to and/or from the CNC Group. As disclosed in the Company’s announcement dated August 12, 2005 (the “CNC Announcement”), the annual caps for the financial year ending December 31, 2006 in respect of the above categories (1), (2) and (3) are approximately HK\$250 million, HK\$100 million and HK\$300 million respectively.

The Group may from time to time enter into capacity purchase or sale contracts relating to the IRU Contracts which are categorised 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 adviser appointed in accordance with the Listing Rules confirmed that it is normal business practice for the duration of the IRU Contracts to exceed 3 years and be for a term up to 15 years.

On April 12, 2006, the Company announced that the annual cap in respect of the provision of data services by the CNC Group to the Group (category (2) above) would be increased to HK\$290 million for the financial year ending December 31, 2006 as a result of the increase in volume of transactions in relation to the provision of data services. Other than such increase, the annual caps for the remaining categories of transactions as disclosed in the CNC Announcement (categories (1) and (3) above) for the financial year ending December 31, 2006 remain unchanged.

The aggregate value and the annual caps of each category of transactions are set out below:

Category	Aggregate Value For the financial year ended December 31, 2006 (HK\$'000)	CNC Annual Cap For the financial year ended December 31, 2006 (HK\$'000)
(1) Provision of data services by the Group to the CNC Group	17,879	250,000
(2) Provision of data services by the CNC Group to the Group	45,866	290,000
(3) Provision of systems integration services by the Group to the CNC Group	15,863	300,000

CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

3. Annual Review of Continuing Connected Transactions

The Board of Directors (the “Board”) engaged the Auditors of the Company to conduct a review of the CTC Transactions and the CNC Transactions entered into by the Group for the year ended December 31, 2006. The Auditors have reported their factual findings to the Board.

The Board, including the independent non-executive directors of the Company, has reviewed and confirmed that the CTC Transactions and the CNC Transactions for the year ended December 31, 2006 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 that for the year ended December 31, 2006, the CTC Transactions and the CNC Transactions:

- (i) were approved by the Board;
- (ii) were in accordance with the pricing policies of the Group if the CTC Transactions and the CNC 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 the CNC Transactions; and
- (iv) did not exceed the respective annual caps of the CTC Transactions and the CNC Transactions disclosed in the Company's previous announcements.

CONNECTED TRANSACTIONS

1. Acquisition of 50% interests in 網通寬帶網絡有限責任公司 (“CNCBB”)

On March 2, 2006, PCCW IMS China Development Company Limited (“PCCW IMS China”), an indirect wholly-owned subsidiary of the Company, 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 Holdings”) (as vendors) and CNCBB (as the target company) (all being connected persons of the Company as defined in the Listing Rules) 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. The Sale and Purchase Agreement was substantially based on the framework set out in the Framework Agreement entered into by the parties which was disclosed in the Company's announcement dated August 25, 2005. The consideration for the acquisition of 50% interests in CNCBB from the CNC Group was RMB318 million payable in Hong Kong dollars. On December 21, 2006, PCCW IMS China transferred all of its rights and interests in the Sale and Purchase Agreement to PCCW Teleservices (Hong Kong) Limited (“PCCW Teleservices”), an indirect wholly-owned subsidiary of the Company. PCCW Teleservices became a shareholder of CNCBB on January 11, 2007.

2. Subscription of interest in Limited Partnership

Pursuant to an Amended and Restated Limited Partnership Agreement dated April 20, 2006 entered into among, *inter alia*, Internet Applications Limited (“IAL”), an indirect wholly-owned subsidiary of the Company and CBC Partners, L.P., the General Partner of China Broadband Capital Partners L.P. (“the Fund”), IAL agreed to invest up to a maximum of US\$50 million in the Fund. The Fund has been established to invest principally in telecommunications, media and technology related companies with substantial markets and/or operations in the PRC.

The General Partner of the Fund is indirectly wholly-owned by Dr Tian Suning, a Deputy Chairman and Non-Executive Director of the Company. Accordingly, the General Partner of the Fund is an associate of Dr Tian Suning under the Listing Rules and, therefore, a connected person of the Company under the Listing Rules. The investment by IAL of a limited partnership interest in the Fund constituted a connected transaction for the Company under the Listing Rules.

REPORT OF THE DIRECTORS (CONTINUED)

RELATED PARTY TRANSACTIONS

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

PUBLIC FLOAT

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

AUDITORS

The financial statements for the financial year ended December 31, 2006 have been audited by PricewaterhouseCoopers who will retire on 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

Philana WY Poon

Group General Counsel and Company Secretary

Hong Kong, March 28, 2007