NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006
(Amount expressed in Hong Kong dollars unless otherwise stated)

1 GROUP ORGANIZATION

PCCW Limited (the "Company") was incorporated in the Hong Kong Special Administrative Region ("Hong Kong") and its securities have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since October 18, 1994. The address of its registered office is 39th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong. The principal activities of the Company and its subsidiaries (collectively 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 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.

a. Acquisition of 50% interest 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, initially entered into a sale and purchase agreement with China Network Communications Group Corporation ("China Netcom Group"), a stated-owned enterprise established under the laws of the People's Republic of China (the "PRC"), and 中國網絡通信(控股)有限公司, a state-owned enterprise established under the laws of the PRC and a wholly-owned subsidiary of China Netcom Group, as vendors, and CNCBB, a limited liability company established in the PRC and a subsidiary of China Netcom Group, as the target company, whereby PCCW IMS China agreed to acquire from the vendors an aggregate of 50% of the registered capital of CNCBB after the completion of CNCBB's group reorganization at a consideration of RMB318 million, which is funded by internal resources of the Company and is payable according to agreed payment schedule. On December 21, 2006, PCCW IMS China transferred all of its rights and interests in the above sale and purchase agreement to PCCW Teleservices (Hong Kong) Limited ("PCCW Teleservices"), an indirect wholly-owned subsidiary of the Company. As at December 31, 2006, HK$7.8 million has been paid and recorded under "Prepayments, deposits and other current assets" in the consolidated balance sheet. PCCW Teleservices became a shareholder of CNCBB on January 11, 2007.

b. Acquisition of substantially all the operating assets and businesses of SUNDAY Communications Limited (in voluntary liquidation) ("SUNDAY") and its then subsidiaries

On September 25, 2006, the Company offered to purchase the entire issued share capital of SUNDAY Holdings (Hong Kong) Corporation ("SUNDAY Holdings"), a company incorporated in the British Virgin Islands and a then wholly-owned subsidiary of SUNDAY, a non wholly-owned subsidiary of the Company incorporated in the Cayman Islands with limited liability whose shares were listed on the Stock Exchange and whose American depositary shares ("ADS") were quoted on the NASDAQ Global Market in the United States of America, at an aggregate consideration of HK$1,943,500,000 (the "Offer"). Pursuant to the Offer, the Company or its subsidiaries purchased substantially all the operating assets and businesses of SUNDAY and its then subsidiaries (collectively the "SUNDAY Group"). Under the Offer, HK$401,500,000 of the consideration was settled in cash and the remaining consideration was settled by the issue of a promissory note in the principal amount of HK$1,542,000,000 by the Company to SUNDAY. The shareholders of SUNDAY other than PCCW Mobile Holding No. 2 Limited ("PCCW Mobile"), an indirect wholly-owned subsidiary of the Company, and its associates (the "Independent Shareholders") had to consider approving SUNDAY's proposed declaration of a distribution in favour of its shareholders of the entire sale proceeds received (the "Proposed Distribution"). The Proposed Distribution was satisfied by the distribution of the promissory note in the principal amount of HK$1,542,000,000 to PCCW Mobile and the distribution of an amount of HK$401,500,000 in cash to the Independent Shareholders, which was equivalent to a distribution of HK$0.65 per SUNDAY's share. In addition, SUNDAY proposed that, in conjunction with and as a condition precedent to the Proposed Distribution, the Independent Shareholders had to consider approving a voluntary withdrawal of the listing of SUNDAY's shares on the Stock Exchange (the "Withdrawal Proposal").

Pursuant to resolutions passed at an extraordinary general meeting of SUNDAY held on November 30, 2006, the acceptance of the Offer, the Proposed Distribution, the Withdrawal Proposal and the transactions in connection therewith were duly passed by the Independent Shareholders and the shareholders of SUNDAY (as required). The acquisition of the entire issued share capital of SUNDAY Holdings was completed on December 4, 2006 and goodwill of approximately HK$401 million was recorded during the year ended December 31, 2006. Following completion of the purchase of SUNDAY Holdings, SUNDAY's remaining subsidiaries became non-operating or dormant subsidiaries which were insignificant in value. In order to make the Proposed Distribution, SUNDAY was de-registered in the Cayman Islands and continued as a company in the British Virgin Islands under the BVI Business Companies Act, 2004 on December 19, 2006. The listing of SUNDAY's shares on the Stock Exchange and its ADS on the NASDAQ Global Market was withdrawn on December 20, 2006 and December 21, 2006 respectively. Subsequently, the voluntary liquidation of SUNDAY commenced on December 29, 2006.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

a. Statement of compliance

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

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

– Amendment to HKAS 19 Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures, which permits an additional option to recognize actuarial gains or losses outside the income statement and in the statement of recognized income and expense. It also adds additional disclosure requirements. The Group does not elect to adopt this alternative treatment.

– Amendment to HKAS 21 The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation, which requires exchange differences arising on a monetary item that forms part of an entity's net investment in a foreign operation to be initially recognized in equity in the entity's consolidated financial statements.

– Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions, which allows the designation of an intragroup transaction as a hedged item when the foreign currency risk of the transaction would affect the consolidated financial statements.

– Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – The Fair Value Option, which amends the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category.

– Amendments to HKAS 39 Financial Instruments: Recognition and Measurement & HKFRS 4 Insurance Contracts – Financial Guarantee Contracts, which requires the recognition of issued financial guarantees at fair value irrespective of the legal form.

– HKFRS-Int 4 Determining whether an Arrangement contains a Lease, which requires application of lease accounting in accordance with HKAS 17 "Leases" on all arrangements that convey the right to use specific assets irrespective of their legal form.

The adoption of these new and revised HKFRSs has no material effect on the Group's results and financial position for the current or prior accounting periods reflected in these financial statements.

The Group has not adopted any new standard or interpretation that is not effective for the current accounting period, details of which are set out in note 45.

b. Basis of preparation of the financial statements

The consolidated financial statements for the year ended December 31, 2006 comprise the Company and its subsidiaries, other than those unconsolidated subsidiaries acquired exclusively with a view for resale, and the Group's interest in jointly controlled companies and associates.

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

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

– financial instruments classified as financial assets at fair value through profit or loss (see note 2(m)(i)) or available-for-sale financial assets (see note 2(m)(iii)); and

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

The investment in unconsolidated subsidiaries held for sale is stated at the lower of carrying amount and fair value less costs to sell (see note 2(u)).

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

b. Basis of preparation of the financial statements *(continued)*

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

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

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

c. Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

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

Where the Group increases its interest in a subsidiary, its incremental interest gives rise to additional goodwill in the subsidiary. The goodwill is determined as the difference between the consideration given and the interest acquired in the subsidiary's net assets and contingent liabilities at their carrying values on the Group's consolidated balance sheet. No fair value exercise is performed because HKFRS 3 allows a step-up to fair values only at the date control is gained. Where the Group decreases its interest in a subsidiary without losing control, any gain or loss on the partial disposal is recognized as "Other gains, net" in the consolidated income statement.

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

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

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

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

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

c. Subsidiaries and minority interests *(continued)*

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(n)). The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

d. Associates

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

Investments in associates are accounted for in the consolidated financial statements under the equity method and are initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associates' net assets. The consolidated income statement includes the Group's share of post-acquisition, post-tax results of the associates for the year.

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

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

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

e. Joint ventures and jointly controlled companies

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

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

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

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

f. Property, plant and equipment

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

- buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 2(h)); and
- other items of plant and equipment.

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

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

f. Property, plant and equipment *(continued)*

Subsequent costs are included in the carrying amount of an item of property, plant and equipment or recognized as a separate item of property, plant and equipment, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance and overhaul costs, are recognized in the income statement as an expense in the period in which they are incurred.

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

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

Land and buildings	Over the shorter of the unexpired term of land lease and the estimated useful lives
Exchange equipment	5 to 15 years
Transmission plant	5 to 25 years
Other plant and equipment	Over the shorter of 2 to 17 years and the term of lease

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

g. Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(h)) to earn rental income and/or for capital appreciation, and which are not occupied by the companies in the consolidated Group.

Investment properties are stated in the balance sheet at fair value, based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset, determined annually by independent qualified valuers. The fair value of investment properties reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognized in the income statement. Rental income from investment properties is accounted for as described in note 2(aa)(iv).

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

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

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

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property at fair value. Any difference between the fair value of the property at that date and its previous carrying amount is recognized in the income statement.

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

h. Leased assets

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

i. Classification of assets leased to the Group

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

ii. Assets leased out under operating leases

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

iii. Operating lease charges

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

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

When the definite intention to develop the leasehold land is clear and action initiated, leasehold land is reclassified as properties under development and the amortization of the operating lease is capitalized in properties under development until the completion of the development.

i. Properties under development

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

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

Properties under development for sale where the pre-sales have not yet commenced or pre-sale contracts were entered on or after January 1, 2005 are carried at the lower of cost and the estimated net realizable value.

Cost includes original land acquisition costs, costs of land use rights, construction expenditure incurred and other direct development costs attributable to such properties, including amortization of leasehold land and interest incurred on loans directly attributable to the development prior to the completion of construction.

Net realizable value is determined by reference to estimated sale proceeds of properties sold in the ordinary course of business less all estimated selling expenses.

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

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

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

j. Properties for sale

Completed properties for sale are classified under current assets and stated at the lower of cost and net realizable value. Cost is determined by apportionment of the total land and development costs attributable to the unsold properties. Net realizable value represents the estimated selling price less costs to be incurred in selling the properties.

k. Goodwill

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

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

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

l. Intangible assets (other than goodwill)

i. Customer acquisition costs

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

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

ii. Mobile carrier licence

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

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

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

iii. Other intangible assets

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

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

Trademarks	2 – 20 years
Content licence	10 years
Wireless broadband licence	Over the term of licence
Mobile carrier licence for third generation ("3G") services ("3G licence")	Over the term of licence, commencing from the date of launch of the 3G services
Customer base	2 years

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

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

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

iii. Other intangible assets *(continued)*

Intangible assets with indefinite useful lives are not amortized. The intangible asset and its status are reviewed annually to determine whether events and circumstances continue to support indefinite useful life. Should the useful life of an intangible asset change from indefinite to finite, the change would be accounted for prospectively from the date of change and in accordance with the policy for amortization of intangible assets with finite lives as set out above.

m. Investments in debt and equity securities

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

Investments in debt and equity securities are initially stated at cost, which is their transaction price unless fair value can be reliably estimated using valuation techniques which variables include only data from observable markets. Cost includes attributable transaction costs, except indicated otherwise below. The investments are subsequently accounted for based on their classification as set out below:

i. Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are classified as current assets, if they are either held for trading or are expected to be realized within 12 months from the balance sheet date. Any attributable transaction costs are recognized in the income statement as incurred. At each balance sheet date, the fair value is remeasured, with any unrealized holding gains or losses arising from the changes in fair value being recognized in the income statement in the period in which they arise.

ii. Held-to-maturity investments

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

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

iii. Available-for-sale financial assets

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

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

The fair value of quoted investments are based on bid price at the balance sheet date. For unlisted securities or financial assets without an active market, the Group and/or the Company establishes the fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs. If none of the valuation techniques results in a reasonable estimate on the fair value, the investment is stated in the balance sheet at cost less impairment losses (see note 2(n)).

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

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

n. Impairment of assets

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

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortized cost or are classified as available-for-sale financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognized as follows:

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

– For trade and other current receivables and other financial assets carried at amortized cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

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

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

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

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

ii. Impairment of other assets

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

– property, plant and equipment;
– interests in leasehold land classified as being held under an operating lease;
– intangible assets;
– investments in subsidiaries, jointly controlled companies and associates; and
– goodwill.

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

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

n. Impairment of assets *(continued)*

ii. Impairment of other assets *(continued)*

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less cost to sell and value in use. Fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a CGU).

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

o. Derivative financial instruments

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

p. Hedging

i. Fair value hedge

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

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

ii. Cash flow hedge

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

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

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

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

p. Hedging *(continued)*

ii. Cash flow hedge *(continued)*

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

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

q. Programme costs

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

r. Inventories

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

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

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

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

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

s. Construction contracts

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

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

t. Trade and other receivables

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

u. Unconsolidated subsidiaries held for sale

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

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

v. Cash and cash equivalents

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

w. Trade and other payables

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

x. Borrowings

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

y. Convertible notes and bonds

i. Convertible notes and bonds that contain an equity component

Convertible notes and bonds that can be converted to equity share capital of the Company at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible notes and bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amounts initially recognized as the liability component is recognized as the equity component and included in the convertible note and bonds reserve under equity. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently stated at amortized cost until extinguished on conversion or maturity of the notes and bonds, with any difference between the amount initially recognized and the redemption value being recognized in the income statement over the period of the notes and bonds using the effective interest method.

If the notes and bonds are converted, the respective equity component in the convertible note and bonds reserve, together with the carrying value of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the notes and bonds are redeemed, the respective equity component in the convertible note and bonds reserve is released directly to deficit.

ii. Other convertible notes

Convertible notes which do not contain an equity component and are held on a continuing basis for an identifiable long-term purpose, are accounted for as set out below.

At initial recognition the derivative component of the convertible notes is measured at fair value and any excess of proceeds over the amount initially recognized as the derivative component is recognized as the liability component. Transaction costs that relate to the issue of the convertible note are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognized initially as part of the liability. The portion relating to the derivative component is recognized immediately in the income statement.

The derivative component is subsequently remeasured in accordance with note 2(o). The liability component is subsequently stated at amortized cost, with any difference between the amount initially recognized and the redemption value being recognized in the income statement over the period of the convertible notes using the effective interest method.

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

z. Provisions and contingent liabilities

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

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

aa. Revenue recognition

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

i. Telecommunications and other services

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

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

Up-front fees received for installation of equipment and activation of customer service are deferred and recognized over the expected customer relationship period, which is estimated based on the expected stabilized churn rate.

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

ii. Sales of goods

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

iii. Sales of properties

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

Revenue and profits arising from the pre-completion contracts for the sale of properties under development is accounted for as follows:

– for pre-completion contracts for the sale of properties under development for which legally binding unconditional sales contracts were entered into before January 1, 2005, as permitted by the transitional provisions of HK-Int 3 "Revenue – Pre-completion Contracts for the Sale of Development Properties", revenue and profits continue to be recognized on the percentage of construction completion basis commencing when these contracts are signed and exchanged, provided that the construction work has progressed to a stage where the ultimate realization of profit can be reasonably determined and on the basis that the total estimated profit is apportioned over the entire period of construction to reflect the progress of the development. Deposits and instalments received from purchasers are netted off from properties under development.

– for pre-completion contracts for the sale of properties under development for which legally binding unconditional sales contracts were entered into on or after January 1, 2005, as required by HK-Int 3, revenue and profits are recognized upon completion of the development and when significant risks and reward of ownership have been transferred. Deposits and instalments received from purchasers prior to this stage are included in current liabilities.

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

aa. Revenue recognition *(continued)*

iv. Rental income from operating leases

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

v. Contract revenue

Revenue from a fixed price contract is recognized using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract.

vi. Interest income

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

vii. Commission income

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

viii. Dividend income

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

bb. Borrowing costs

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

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

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

cc. Income tax

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

ii. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous year.

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

All deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized.

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

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

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

cc. Income tax *(continued)*

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

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

dd. Employee benefits

i. Short-term employee benefits

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

ii. Retirement benefits

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

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

The Group's defined benefit liability recognized in the consolidated balance sheet in respect of defined benefit retirement schemes is the present value of the defined benefit obligation at the balance sheet date less the fair value of scheme assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The calculation is performed annually by independent qualified actuaries using the projected unit credit method. Under this method, the cost of providing defined benefits is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates with reference to market yields at the balance sheet date based on Exchange Fund Notes, which have terms to maturity approximating the terms of the related liability.

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

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

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

dd. Employee benefits *(continued)*

iii. Share-based payments

The Group operates share option schemes where employees (and including directors) are granted options to acquire shares of the Company at specified exercise prices. The fair value of the employee services received in exchange for the grant of the options is recognized as staff costs in the income statement with a corresponding increase in an employee share-based compensation reserve under equity. The fair value of the options granted is measured at grant date using the trinomial option pricing model, taking into account the terms and conditions upon which the options were granted, and spread over the respective vesting period during which the employees become unconditionally entitled to the options. During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years is charged or credited in the income statement for the year of the review, unless the original staff costs qualify for recognition as an asset, with a corresponding adjustment to the employee share-based compensation reserve. On vesting date, the amount recognized as staff costs is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the employee share-based compensation reserve). The equity amount is recognized in the employee share-based compensation reserve until either the share options are exercised (when it is transferred to the share premium account) or the share options expires (when it is released directly to retained profits). Share options granted before November 7, 2002 or granted after November 7, 2002 but vested on or before December 31, 2004 are not expensed as they are not subject to the requirements of HKFRS 2 "Share-based Payment". When the share options are exercised, the proceeds received, net of any directly attributable transaction cost, are credited to share capital (nominal value) and share premium.

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

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

iv. Termination benefits

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

ee. Translation of foreign currencies

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

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

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

ee. Translation of foreign currencies *(continued)*

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of transactions. Balance sheet items of foreign operations, including goodwill arising on consolidation of foreign operations acquired on or after January 1, 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. Goodwill arising on consolidation of a foreign operation acquired before January 1, 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation. The resulting exchange differences are recognized directly in the currency translation reserve under equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, if any, are taken to currency translation reserve under equity. On disposal of a foreign operation, the cumulative amount of the exchange differences recognized in the currency translation reserve under equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

ff. Related parties

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

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

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

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

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

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

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

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

gg. Segment reporting

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

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

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

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets and liabilities, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

a. Key sources of estimation uncertainty

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Notes 20, 31(a), 32 and 38 contain information about the assumptions and their risk factors relating to goodwill impairment, defined benefit liability, fair value of share options or shares granted and financial instruments. Other key sources of estimation uncertainty are discussed below:

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

The Group has significant property, plant and equipment and intangible assets (other than goodwill). The Group is required to estimate the useful lives of property, plant and equipment and intangible assets (other than goodwill) in order to ascertain the amount of depreciation and amortization charges for each reporting period. A significant amount of these assets have estimated useful lives that extend beyond 10 years.

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

ii. Impairment of assets

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

- property, plant and equipment;
- interests in leasehold land classified as being held under an operating lease;
- intangible assets;
- investments in subsidiaries, jointly controlled companies and associates; and
- goodwill.

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

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

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

a. Key sources of estimation uncertainty *(continued)*

iii. Revenue recognition

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

The Group offers certain arrangements whereby a customer can purchase mobile handset together with a fixed period mobile service arrangement. When such multiple element arrangement exists, the amount of revenue recognized upon the sale of mobile handset is determined using the residual value method. Under such method, the Group determines the revenue from the sale of the mobile handset delivered by deducting the fair value of the service element from the total contract consideration.

iv. Provisions

The Group recognizes provisions when it has a present legal or constructive obligation arising as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The recording of provisions requires the application of judgements about the ultimate resolution of these obligations. As a result, provisions are reviewed at each balance sheet date and adjusted to reflect the Group's current best estimate.

Pursuant to an agreement dated May 17, 2000 entered into with the Government of Hong Kong (the "Government") in respect of the Cyberport project (the "Cyberport Project Agreement") as set out in note 19, the Government is entitled to receive approximately 65% from the surplus cash flow earned from the Cyberport project. Provision for payment to the Government is included as a cost within properties under development. The provision is based on estimated total sales proceeds of the residential portion of the Cyberport project and the estimated total development costs of the Cyberport project, enabling appropriate margins to be recorded at each phase. Significant variations in estimating the future sales proceeds and development costs would affect the required provision to the Government and the Group's profit from the Cyberport project.

v. Deferred taxation

While deferred tax liabilities are provided in full on all taxable temporary differences, deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. In assessing the amount of deferred tax assets that need to be recognized, the Group considers future taxable income and ongoing prudent and feasible tax planning strategies. In the event that the Group's estimates of projected future taxable income and benefits from available tax strategies are changed, or changes in current tax regulations are enacted that would impact the timing or extent of the Group's ability to utilize the tax benefits of net operating loss carry-forwards in the future, adjustments to the recorded amount of net deferred tax assets and taxation expense would be made. During the year ended December 31, 2006, management has performed review on future taxable profits of the Group and determined that the Group has the ability to utilize tax loss carry-forwards of HK$970 million, and deferred tax assets of HK$170 million have been recognized accordingly (see note 34(b)).

vi. Current tax

The Group makes a provision for current tax based on estimated income tax liabilities. The estimated income tax liabilities are primarily computed based on the tax computation as prepared by the Group. Nevertheless, from time to time, there are cases of disagreements with the tax authorities of Hong Kong and elsewhere on the tax treatment of items included in the tax computations. If the Group considers it probable that these disputes would result in additional tax payments, the most likely amount of the payment will be estimated and adjustments to the tax expenses and tax liabilities will be made accordingly. The Group has been in dispute with Hong Kong's Inland Revenue Department (the "IRD") regarding the deductibility of certain finance expenses, details of which are set out in note 40(b).

vii. Recognition of intangible asset – Mobile carrier licence

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

b. Critical accounting judgements in applying the Group's accounting policies

Certain critical accounting judgements in applying the Group's accounting policies are described below.

i. Accounting for the indefeasible rights to use international undersea cable capacity (the "IRU")

The Group acquired an IRU from Reach Ltd. ("REACH") and its subsidiaries (collectively the "Reach Group") to use certain international undersea cables and determined to recognize it as transmission plant under "Property, plant and equipment" in 2005. The Group believes that the period covered by the IRU represents the major part of the economic lives of the underlying assets and the Group bears all costs and receives all the benefits from the utilization of the undersea cables. Accordingly, the Group believes the risks and rewards incidental to ownership have been transferred to the Group and has treated the transaction as an acquisition of property, plant and equipment.

ii. Disposal of PCCW Tower

The disposal of PCCW Tower, the Group's headquarters in Hong Kong, was completed on February 7, 2005. Under the formal property sale and purchase agreement dated December 21, 2004, on completion of the disposal, the Group, through Pacific Century Premium Developments Limited ("PCPD"), a subsidiary of the Company, has guaranteed to the purchaser a net monthly rental of approximately HK$13.3 million for a period of 5 years commencing from the date following completion of the disposal. The Group derecognized the property as at February 7, 2005 on the basis that the Group considered that the significant risks and rewards associated with the ownership of the property were transferred to the purchaser as of that date as the net potential shortfall in rental to be received by the Group over the guaranteed net monthly rental payments for the 5-year-period, if any, was expected to be insignificant as compared to the total sales proceeds of HK$2,808 million.

iii. Hedge accounting

The Group has entered into cross currency swap contracts to manage its exposure to foreign currency risk relating to foreign currency denominated long-term liabilities. During the year ended December 31, 2006, the Group has designated certain cross currency swap contracts as hedging instruments in cash flow hedges.

In evaluating whether a particular relationship qualifies for hedge accounting, the Group measures hedge effectiveness at inception and quarterly thereafter to assess the hedging instrument's effectiveness in offsetting the exposure to change in the hedged item's cash flows attributable to the hedged risk. If the effectiveness of a hedge relationship falls outside the range of 80%-125%, the Group discontinues applying hedge accounting to that relationship prospectively.

Movement in fair value of derivative financial instrument is accounted for using hedge accounting where the Group meets the relevant eligibility, documentation and effectiveness requirements. If a cash flow hedge does not meet the strict criteria for hedge accounting, or where there is ineffectiveness or partial ineffectiveness. Movement in fair value of derivative financial instrument will be recorded in the consolidated income statement immediately, instead of being recognized in equity.

Details of the cross currency swap contracts that meet the criteria for hedge accounting are set out in note 38(d).

4 RELATED PARTY TRANSACTIONS

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

In HK$ million		The Group	
	Note(s)	**2006**	2005
Convertible bond interest paid or payable to a substantial shareholder	a	**–**	276
Telecommunications service fees, rental charges, facility management services and subcontracting charges received or receivable from a jointly controlled company	a & c	**135**	135
Systems integration charges received or receivable from a shareholder of a PRC subsidiary	a	**436**	404
Telecommunications service fees and systems integration charges received or receivable from a substantial shareholder	a	**98**	34
Telecommunications service fees, outsourcing fees and rental charges paid or payable to a jointly controlled company	a & c	**660**	765
Telecommunications service fees paid or payable to a substantial shareholder	a	**41**	14
Key management compensation	b	**112**	164

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

b. Details of key management compensation

In HK$ million	The Group	
	2006	2005
Salaries and other short-term employee benefits	**82**	117
Post-employment benefits	**4**	4
Share-based compensation	**26**	43
	112	164

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

An indirect wholly-owned subsidiary of the Company and a wholly-owned subsidiary of the JV have entered into an amended Hong Kong Domestic Connectivity Agreement and an amended International Services Agreement for the provision of domestic and international connectivity services in Hong Kong and between Hong Kong and other countries, such that each of the Group and Telstra Corporation Limited ("Telstra") have agreed to purchase 90% per annum of the Group's and Telstra's respective "Committed Services" (being international public switched telephone network terminating access, international transmission capacity and Internet gateway access services) from the JV and its subsidiaries until repayment of the outstanding portion of US$1,200 million (approximately HK$9,360 million) of the debt under the amended US$1,500 million syndicated term loan facility (the "Reach Term Facility") to a wholly-owned subsidiary of the JV on December 31, 2010 or earlier at rates benchmarked at least annually to prevailing market prices. The wholly-owned subsidiary of the JV similarly must acquire 90% per annum of its local connectivity services from the Group under the amended agreement for domestic connectivity services, similarly extended for the same period. The amended International Services Agreement was terminated as part of the arrangements relating to the establishment of the new operating model for the JV on April 16, 2005, details of which are set out below.

There were no purchase made by the Group under the above agreements from the JV for the year ended December 31, 2006 (2005: HK$163 million).

4 RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

On June 18, 2004, the Company purchased from the syndicate of banks 50% of the entire outstanding portion of US$1,200 million of the debt under the Reach Term Facility for approximately US$155.45 million (approximately HK$1,213 million). This loan receivable from the wholly-owned subsidiary of the JV is secured and will be repayable in a single payment on December 31, 2010. Interest on the loan receivable was suspended for six months from June 18, 2004 and agreed to be at London Interbank Offered Rate ("LIBOR") plus 250 basis points thereafter. The loan receivable was subsequently set-off pursuant to the arrangements relating to the establishment of the new operating model for the JV on April 16, 2005, details of which are set out below.

In addition, on June 17, 2004, the Company and Telstra agreed to provide the JV with a revolving working capital loan facility with each of the Company and Telstra contributing up to US$25 million (approximately HK$195 million) to this facility. As at December 31, 2006, no draw down has been made by the JV under this facility (2005: Nil). This amount has been disclosed as the Group's commitment as at December 31, 2006 with details set out in note 39(c).

On April 16, 2005, the Company agreed with Telstra and the JV on a new operating model under which the JV would operate as an outsourcer of telecommunications network services for the Group and Telstra and its subsidiaries. During the year ended December 31, 2006, the outsourcing fees paid or payable by the Group to the JV under the new operating model, determined on a cost plus basis, were HK$487 million (2005: HK$552 million).

d. Amounts due from/(to) related companies

Other than as specified in this note, notes 23 and 24 and a loan to the parent company of a substantial shareholder in the amount of HK$57 million (2005: HK$98 million) at a fixed interest rate of 4% per annum and with fixed terms of repayment up to 2010, balances with related parties are unsecured, non-interest bearing and have no fixed repayment terms.

5 TURNOVER

In HK$ million	The Group	
	2006	2005
Telecommunications and other service revenues	**16,665**	15,703
Amounts received and receivable in respect of goods sold	**1,773**	1,727
Amounts received and receivable in respect of properties sold	**6,950**	4,821
Amounts received and receivable from the rental of investment properties	**249**	248
	25,637	22,499

6 SEGMENT INFORMATION

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

a. Business segments

During the year, the Group has changed the identification of its reporting business segments. The new basis of segment identification provides a more appropriate presentation of segment information so as to better reflect the Group's current business development. The Group comprises the following main business segments:

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

TV & Content includes interactive pay-TV service and Internet portal multimedia entertainment platform.

Mobile includes the Group's 2G and 3G mobile telecommunications businesses.

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

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

6 SEGMENT INFORMATION *(CONTINUED)*

a. Business segments *(continued)*

Other Businesses include the Group's directories operations in Hong Kong and mainland China, telecommunications business in Taiwan, wireless broadband business in the United Kingdom ("UK Broadband") and all corporate support functions.

In HK$ million	TSS		TV & Content		Mobile		PCCW Solutions		PCPD		Other Businesses		Elimination		Consolidated	
	2006	2005*	**2006**	2005*	**2006**	2005*	**2006**	2005*	**2006**	2005*	**2006**	2005*	**2006**	2005*	**2006**	2005
REVENUE																
External revenue	**14,751**	14,727	**739**	431	**1,236**	598	**1,128**	1,070	**7,195**	5,072	**588**	601	**–**	–	**25,637**	22,499
Inter-segment revenue	**623**	321	**–**	–	**–**	–	**524**	509	**68**	55	**3**	10	**(1,218)**	(895)	**–**	–
Total revenue	**15,374**	15,048	**739**	431	**1,236**	598	**1,652**	1,579	**7,263**	5,127	**591**	611	**(1,218)**	(895)	**25,637**	22,499
RESULT																
Segment results	**4,950**	4,882	**(450)**	(343)	**(701)**	(126)	**108**	(35)	**912**	604	**(400)**	(150)	**–**	–	**4,419**	4,832
Unallocated corporate expenses															**(628)**	(278)
Interest income															**732**	533
Finance costs															**(2,008)**	(2,234)
Share of results of jointly controlled companies and associates	**37**	120	**–**	–	**–**	–	**–**	–	**–**	–	**–**	1	**–**	–	**37**	121
Impairment losses on interests in jointly controlled companies and associates	**–**	–	**–**	–	**–**	–	**–**	(4)	**–**	–	**–**	–	**–**	–	**–**	(4)
Profit before taxation															**2,552**	2,970
Income tax															**(920)**	(1,103)
Profit for the year															**1,632**	1,867

6 SEGMENT INFORMATION *(CONTINUED)*

a. Business segments *(continued)*

In HK$ million	TSS		TV & Content		Mobile		PCCW Solutions		PCPD		Other Businesses		Elimination		Consolidated	
	2006	2005*	**2006**	2005*	**2006**	2005*	**2006**	2005*	**2006**	2005*	**2006**	2005*	**2006**	2005*	**2006**	2005
OTHER INFORMATION																
Capital expenditure (including property, plant and equipment, investment properties, interests in leasehold land, intangible assets and goodwill) incurred during the year	**2,159**	3,490	**147**	93	**1,427**	3,227	**70**	111	**642**	100	**135**	202				
Depreciation and amortization	**2,033**	2,069	**114**	65	**511**	151	**42**	64	**21**	13	**244**	242				
Impairment losses recognized in income statement	**–**	33	**–**	–	**–**	–	**1**	21	**25**	6	**50**	20				
Significant non-cash expenses (excluding depreciation, amortization and impairment losses)	**84**	77	**30**	10	**31**	22	**11**	2	**–**	41	**–**	13				
ASSETS																
Segment assets	**18,518**	18,135	**589**	370	**4,346**	3,509	**932**	660	**12,787**	17,278	**1,906**	2,213	**–**	–	**39,078**	42,165
Interests in jointly controlled companies and associates	**637**	697	**–**	–	**–**	–	**–**	–	**–**	–	**10**	8	**–**	–	**647**	705
Unallocated corporate assets															**9,701**	10,413
Consolidated total assets															**49,426**	53,283
LIABILITIES																
Segment liabilities	**4,847**	4,633	**128**	103	**1,216**	928	**589**	429	**5,196**	9,420	**587**	1,090	**–**	–	**12,563**	16,603
Unallocated corporate liabilities															**33,964**	33,948
Consolidated total liabilities															**46,527**	50,551

* Certain comparative figures have been restated to conform with the business segment presentation in the current year as follows:

1. TV & Content and Mobile were previously included in TSS but are now presented as separate business segments.
2. The Group's retail business broadband and directories businesses, both previously included in Business eSolutions, have been reclassified to TSS and Other Businesses, respectively. Business eSolutions has also been renamed as PCCW Solutions.
3. PCPD is principally the former Infrastructure segment with certain external rental income earned from the Group's telephone exchange buildings reclassified to Other Businesses.

6 SEGMENT INFORMATION *(CONTINUED)*

b. Geographical segments

The Group's businesses are managed on a worldwide basis, but operate in three principal economic environments. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

In HK$ million	Revenue from external customers		Segment assets		Capital expenditure incurred during the year	
	2006	2005	**2006**	2005	**2006**	2005
Hong Kong	**23,506**	20,613	**30,895**	35,048	**3,686**	5,394
Mainland China (excluding Hong Kong) and Taiwan	**1,549**	1,498	**5,883**	4,956	**761**	110
Others	**582**	388	**2,300**	2,161	**140**	1,744
	25,637	22,499	**39,078**	42,165	**4,587**	7,248

7 OTHER GAINS, NET

In HK$ million	The Group	
	2006	2005
Net realized gains on disposals of investments in subsidiaries, an associate, available-for-sale financial assets and financial assets at fair value through profit or loss	**99**	264
Net unrealized gains on financial assets at fair value through profit or loss	**–**	73
Impairment loss on investment in unconsolidated subsidiaries held for sale	**(25)**	(6)
Provision for impairment of investments	**(40)**	(18)
Loss on rental guarantee *(note a)*	**–**	(69)
Net realized and unrealized fair value (losses)/gains on derivative financial instruments	**(110)**	319
Fair value gains on investment properties	**1**	2
Dividend income	**6**	10
Unclaimed dividend payable by a subsidiary written back	**2**	27
Write back of provision for loss on legal claims	**105**	–
Others	**4**	24
	42	626

a. Under the formal property sale and purchase agreement dated December 21, 2004 in respect of the disposal of PCCW Tower, on completion of the disposal, there is a rental guarantee pursuant to which Partner Link Investments Limited, an indirect wholly-owned subsidiary of PCPD, has undertaken to the purchaser that it would pay a guaranteed net monthly rental of approximately HK$13.3 million to the purchaser for a period of 5 years commencing from February 8, 2005, i.e. the date following completion of the disposal of PCCW Tower. During the period from February 8, 2005 to December 31, 2005, the Group recorded a net loss of approximately HK$28 million, representing the net cash outflow under the rental guarantee. In addition, the Group also made a provision of approximately HK$41 million in relation to the rental guarantee over the remaining term of the rental guarantee.

8 LOSSES ON PROPERTY, PLANT AND EQUIPMENT

In HK$ million	The Group	
	2006	2005
Losses on:		
Property, plant and equipment *(note a)*	**11**	50
Others	**–**	2
	11	52

a. Due to technology and market changes in the sectors in which the Group operates, certain of the Group's property, plant and equipment became obsolete. Accordingly, the Group recognized losses of approximately HK$11 million (2005: HK$50 million) in the consolidated income statement for the year ended December 31, 2006.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
December 31, 2006
(Amount expressed in Hong Kong dollars unless otherwise stated)

9 PROFIT BEFORE TAXATION

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

a. Staff costs

In HK$ million	The Group	
	2006	2005
Retirement costs for directors	**4**	4
Retirement costs for other staff		
– pension income for defined benefit retirement schemes *(note 31(a)(v))*	**(2)**	(240)
– contributions to defined contribution retirement scheme	**146**	151
	148	(85)
Equity-settled share-based payment expenses	**47**	100
Salaries, bonuses and other benefits	**2,794**	2,662
	2,989	2,677

b. Other items

In HK$ million	The Group	
	2006	2005
Crediting:		
Dividend income from		
– listed investments	**5**	9
– unlisted investments	**1**	1
Realized gains on disposal of investments in a subsidiary and associates included in other gains, net	**–**	166
Realized gains on disposal of available-for-sale financial assets and financial assets at fair value through profit or loss included in other gains, net	**99**	98
Gain on disposal of property, plant and equipment, investment properties and interests in leasehold land	**–**	24
Exchange gains, net	**–**	211
Gross rental income	**249**	248
Less: Outgoings	**(16)**	(21)
Charging:		
Losses on property, plant and equipment	**11**	50
Impairment loss for doubtful debts	**106**	137
Provision for inventory obsolescence	**5**	17
Depreciation of property, plant and equipment	**2,776**	2,543
Amortization of land lease premium	**28**	16
Amortization of intangible assets	**232**	135
Cost of inventories	**1,932**	1,692
Cost of properties sold	**5,987**	4,119
Loss on disposal of property, plant and equipment	**25**	–
Exchange losses, net	**26**	–
Auditors' remuneration	**25**	16
Operating lease rental		
– equipment	**115**	89
– other assets (including property rentals)	**478**	260

10 FINANCE COSTS

In HK$ million	The Group 2006	2005
Interest paid/payable for:		
Overdrafts and bank loans wholly repayable within 5 years	**468**	153
Other loans wholly repayable within 5 years	**1,097**	943
Other loans not wholly repayable within 5 years	**425**	1,166
Finance charges on mobile carrier licence fee liabilities	**57**	–
Other borrowing costs	**4**	–
	2,051	2,262
Interest capitalized in property, plant and equipment	**(43)**	(28)
	2,008	2,234

During the year, the capitalization rates used to determine the amount of interest eligible for capitalization ranged from 5.60% to 7.02% (2005: 5.37% to 7.75%).

11 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Details of directors' emoluments are set out below:

a. Directors' emoluments – cash and cash equivalents paid by the Company

In HK$ million	The Group 2006 Directors' fees	Salaries, allowances and benefits in kind	Bonuses[1]	Retirement scheme contributions
Executive directors				
Li Tzar Kai, Richard	–	–	–	–
So Chak Kwong, Jack	–	16.62	–	0.84
Peter Anthony Allen	–	4.08[2]	–	0.52
Alexander Anthony Arena	–	11.48	8.83	0.81
Chung Cho Yee, Mico	–	2.40[3]	–	–
Lee Chi Hong, Robert	–	11.00	7.27	0.90
Dr Fan Xingcha	–	6.51	–	0.58
Yuen Tin Fan, Francis[4]	–	1.03[5]	–	–
Non-executive directors				
Sir David Ford	–	2.54	0.12	0.20
Zhang Chunjiang	0.20[6]	–	–	–
Dr Tian Suning	0.20	–	–	–
Independent non-executive directors				
Prof Chang Hsin-kang	0.20	–	–	–
Dr Fung Kwok King, Victor	0.20	–	–	–
Dr The Hon Sir Li Kwok Po, David	0.20	–	–	–
Sir Roger Lobo	0.30[7]	–	–	–
Aman Mehta	0.30[8]	0.52	–	–
The Hon Raymond George Hardenbergh Seitz	0.30[9]	0.41	–	–
	1.90	56.59	16.22	3.85

Notes:
1 Bonuses in respect of 2006, paid in 2006 and in 2007.
2 Excludes remuneration for duties performed for related companies.
3 Excludes remuneration for duties performed for related companies.
4 Resigned as executive director with effect from June 5, 2006.
5 Excludes remuneration for duties performed for related companies.
6 Fee receivable as a non-executive director in 2006 was surrendered to a subsidiary of China Network Communications Group Corporation, in accordance with an arrangement between Zhang Chunjiang and China Network Communications Group Corporation, a substantial shareholder of the Company.
7 Includes HK$100,000 fee as Chairman of Audit Committee.
8 Includes HK$100,000 fee as Chairman of Nomination Committee.
9 Includes HK$100,000 fee as Chairman of Remuneration Committee.

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

a. Directors' emoluments – cash and cash equivalents paid by the Company *(continued)*

In HK$ million	The Group 2005			
	Directors' fees	Salaries, allowances and benefits in kind	Bonuses[1]	Retirement scheme contributions
Executive directors				
Li Tzar Kai, Richard	–	4.29[2]	–	–
So Chak Kwong, Jack	–	15.00	8.00	0.63
Peter Anthony Allen	–	2.70[3]	3.00	0.19
Alexander Anthony Arena	–	11.48	8.83	0.81
Chung Cho Yee, Mico	–	5.00	13.09	0.54
Lee Chi Hong, Robert	–	11.00	7.90	0.90
Dr Fan Xingcha[4]	0.05	2.80	2.05[5]	0.24
Yuen Tin Fan, Francis	–	4.28	7.30	0.64
Non-executive directors				
Sir David Ford	–	2.54	0.12	0.20
Zhang Chunjiang[6]	0.15	–	–	–
Dr Tian Suning[7]	0.15	–	–	–
Independent non-executive directors				
Prof Chang Hsin-kang	0.20	–	–	–
Dr Fung Kwok King, Victor	0.20	–	–	–
Dr The Hon Sir Li Kwok Po, David	0.20	–	–	–
Sir Roger Lobo	0.30[8]	–	–	–
Aman Mehta	0.20	0.40	–	–
The Hon Raymond George Hardenbergh Seitz[9]	0.30[10]	0.40	–	–
	1.75	59.89	50.29	4.15

Notes:

1 Bonuses in respect of 2005, paid in 2005 and in 2006.
2 Benefit of accommodation provided.
3 Excludes remuneration for duties performed for related companies.
4 Appointed as a non-executive director on April 1, 2005 and redesignated as an executive director on July 1, 2005.
5 Includes sign-on bonus.
6 Appointed as non-executive director on April 1, 2005.
7 Appointed as non-executive director on April 1, 2005.
8 Includes HK$100,000 fee as Chairman of Audit Committee.
9 Redesignated as independent non-executive director on February 1, 2005.
10 Includes HK$100,000 fee as Chairman of Remuneration Committee.

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

b. Directors' emoluments – share-based compensation

	The Group 2006									
	Grant date	Exercise price of share options	Number of share options/ shares outstanding at beginning of year	Number of share options granted/ (lapsed)/shares awarded	Number of share options exercised/ shares transferred	Number of share options/ shares outstanding at end of year	Number of share options vested	Share-based compensation charged to income statement *(Note ii)*	Value of shares transferred *(Note i)*
		HK$						HK$ million	HK$ million
Executive directors									
So Chak Kwong, Jack	July 25, 2003	4.3500	12,000,000	–	–	12,000,000	12,000,000	2.02	–
	February 8, 2005	4.4750	3,500,000	–	–	3,500,000	1,750,000	1.04	–
	September 15, 2006	4.9240	–	25,000,000	–	25,000,000	–	4.25	–
	May 15, 2003	N/A	2,161,000	–	(2,161,000)	–	N/A	1.78	10.72
	September 15, 2006	N/A	–	6,500,000	–	6,500,000	N/A	6.39	–
Peter Anthony Allen	July 25, 2003	4.3500	2,000,000	–	–	2,000,000	2,000,000	0.33	–
	February 8, 2005	4.4750	2,000,000	–	–	2,000,000	1,000,000	0.60	–
Alexander Anthony Arena	July 25, 2003	4.3500	6,400,000	–	–	6,400,000	6,400,000	1.08	–
	February 8, 2005	4.4750	3,000,000	–	–	3,000,000	1,500,000	0.89	–
Chung Cho Yee, Mico	July 25, 2003	4.3500	5,695,200	–	–	5,695,200	5,695,200	0.96	–
	February 8, 2005	4.4750	3,000,000	–	–	3,000,000	1,500,000	0.89	–
Lee Chi Hong, Robert	July 25, 2003	4.3500	5,000,000	–	–	5,000,000	5,000,000	0.84	–
	February 8, 2005	4.4750	1,000,000	–	–	1,000,000	500,000	0.30	–
Dr Fan Xingcha	September 1, 2005	5.2500	7,000,000	–	–	7,000,000	2,300,000	3.51	–
Yuen Tin Fan, Francis	July 25, 2003	4.3500	8,534,000	(8,534,000)[1]	–	–	N/A	–	–
	February 8, 2005	4.4750	3,000,000	(3,000,000)[1]	–	–	N/A	–	–
Non-executive director									
Sir David Ford	July 25, 2003	4.3500	2,000,000	–	(1,000,000)	1,000,000	1,000,000	0.33	1.15
	February 8, 2005	4.4750	2,000,000	–	–	2,000,000	1,000,000	0.60	–
								25.81	11.87

Note:

1 Upon the resignation as executive director with effect from June 5, 2006, the outstanding share options held in the capacity of director became zero.

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

b. Directors' emoluments – share-based compensation *(continued)*

The Group 2005

	Grant date	Exercise price of share options HK$	Number of share options/ shares outstanding at beginning of year	Number of share options granted/ shares awarded	Number of share options exercised/ shares transferred	Number of share options/ shares outstanding at end of year	Number of share options vested	Share-based compensation charged to income statement *(Note ii)* HK$ million	Value of shares transferred *(Note i)* HK$ million
Executive directors									
So Chak Kwong, Jack	July 25, 2003	4.3500	12,000,000	–	–	12,000,000	8,000,000	6.59	–
	February 8, 2005	4.4750	–	3,500,000	–	3,500,000	–	2.31	–
	May 15, 2003	N/A	4,322,000	–	(2,161,000)	2,161,000	N/A	5.71	11.13
Peter Anthony Allen	July 25, 2003	4.3500	2,000,000	–	–	2,000,000	1,333,333	1.10	–
	February 8, 2005	4.4750	–	2,000,000	–	2,000,000	–	1.32	–
Alexander Anthony Arena	July 25, 2003	4.3500	6,400,000	–	–	6,400,000	4,266,666	3.51	–
	February 8, 2005	4.4750	–	3,000,000	–	3,000,000	–	1.98	–
Chung Cho Yee, Mico	July 25, 2003	4.3500	5,695,200	–	–	5,695,200	3,796,800	3.13	–
	February 8, 2005	4.4750	–	3,000,000	–	3,000,000	–	1.98	–
Lee Chi Hong, Robert	July 25, 2003	4.3500	5,000,000	–	–	5,000,000	3,333,333	2.74	–
	February 8, 2005	4.4750	–	1,000,000	–	1,000,000	–	0.66	–
Dr Fan Xingcha	September 1, 2005	5.2500	–	7,000,000	–	7,000,000	–	1.42	–
Yuen Tin Fan, Francis	July 25, 2003	4.3500	8,534,000	–	–	8,534,000	5,689,333	4.68	–
	February 8, 2005	4.4750	–	3,000,000	–	3,000,000	–	1.98	–
Non-executive director									
Sir David Ford	July 25, 2003	4.3500	2,000,000	–	–	2,000,000	1,333,333	1.10	–
	February 8, 2005	4.4750	–	2,000,000	–	2,000,000	–	1.32	–
								41.53	11.13

i. Value of shares transferred

The value of shares transferred represents the market value of relevant shares granted by the principal shareholder to a director at the date of transfer. Had there been any exercise of share options by directors, the value of share transferred would include the market value of the relevant shares at the date of exercise less the corresponding exercise price.

ii. Share-based compensation charged to income statement

Share-based compensation is a trinomial option pricing model calculation of the fair value of share options, and also the estimated fair value of the Company's shares granted as estimated at the date of grant. Share-based compensation is amortized in the income statement over the vesting period of the related share options or shares granted. These values do not represent realizable gains which are affected by a combination of a number of factors, including, performance of the Company's share price, vesting period, timing of exercise etc. The details of these share options and awards are disclosed in notes 32(a), 32(b) and 32(c) and under the section "Share Option Schemes" in the Report of the Directors.

Total directors' emoluments for the year ended December 31, 2006, including amortized share-based compensation, were HK$104.37 million (2005: HK$157.61 million).

c. Individuals with highest emoluments

Of the five individuals with the highest emoluments, four (2005: all) are directors of the Company whose emoluments are disclosed in notes 11(a) and 11(b). The emoluments in respect of the non-director individual in 2006 were as follows:

In HK$ million	2006
Salaries, allowances and benefits in kind	**3.46**
Bonuses	**3.24**
Retirement scheme contributions	**0.36**
Share-based compensation	**0.49**
	7.55

12 INCOME TAX

a. Taxation in the consolidated income statement represents:

In HK$ million	The Group	
	2006	2005
Hong Kong profits tax		
– provision for current year	**1,106**	1,105
– under provision in respect of prior years	**10**	77
Overseas tax		
– provision for current year	**16**	5
– over provision in respect of prior years	**(28)**	–
Recovery of deferred taxation *(note 34(a))*	**(184)**	(84)
	920	1,103

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

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

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

In HK$ million	The Group	
	2006	2005
Profit before taxation	**2,552**	2,970
Notional tax on profit before taxation, calculated at applicable tax rates	**447**	520
Income not subject to taxation	**(146)**	(177)
Expenses not deductible for taxation purposes	**249**	348
Tax losses not recognized	**542**	444
(Over)/Under provision in prior years, net	**(18)**	13
Utilization of previously unrecognized tax losses	**(17)**	(29)
Recognition of previously unrecognized tax losses	**(147)**	–
Income not subject to taxation for jointly controlled companies and associates	**(6)**	(21)
Tax provision of overseas operations	**16**	5
Tax expense	**920**	1,103

13 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Profit of HK$4,292 million (2005: HK$2,809 million) attributable to equity holders of the Company was dealt with in the financial statements of the Company.

14 DIVIDENDS

a. Dividends payable to equity holders of the Company attributable to the year

In HK$ million	**2006**	2005
Interim dividend declared and paid of 6.5 HK cents (2005: 6.5 HK cents) per ordinary share	**438**	437
Final dividend proposed after the balance sheet date of 12 HK cents (2005: 12 HK cents) per ordinary share	**811**	807
	1,249	1,244

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

14 DIVIDENDS *(CONTINUED)*

b. Dividends payable to equity holders of the Company attributable to the previous financial year, approved and paid during the year

In HK$ million	2006	2005
Final dividend in respect of the previous financial year, approved and paid during the year, of 12 HK cents (2005: 9.6 HK cents) per ordinary share	**808**	645

15 EARNINGS PER SHARE

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

	2006	2005
Earnings (in HK$ million)		
Earnings for the purpose of basic and diluted earnings per share	**1,252**	1,595
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**6,735,317,874**	6,388,671,140
Effect of deemed issue of shares under the Company's share option schemes for nil consideration	**17,122,267**	12,760,758
Effect of shares purchased from the market under the Company's share award schemes	**1,340,381**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**6,753,780,522**	6,401,431,898

The US$450 million 1% guaranteed convertible bonds due 2007 outstanding as at December 31, 2006 and 2005 has an anti-dilutive effect on the basic earnings per share for the years ended December 31, 2006 and 2005.

16 PROPERTY, PLANT AND EQUIPMENT

In HK$ million	The Group					
	2006					
	Land and buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	Total
Cost						
Beginning of year	1,207	9,335	10,220	7,625	1,746	30,133
Additions	–	844	723	851	821	3,239
Transfers	3	295	506	382	(1,184)	2
Disposals	(10)	(76)	(4)	(520)	(4)	(614)
Exchange differences	6	18	–	12	40	76
End of year	1,206	10,416	11,445	8,350	1,419	32,836
Accumulated depreciation and impairment						
Beginning of year	99	4,992	3,663	5,367	–	14,121
Charge for the year	49	1,121	736	870	–	2,776
Impairment losses	–	10	–	1	–	11
Disposals	(8)	(68)	(4)	(499)	–	(579)
Exchange differences	2	2	–	6	–	10
End of year	142	6,057	4,395	5,745	–	16,339
Net book value						
End of year	1,064	4,359	7,050	2,605	1,419	16,497
Beginning of year	1,108	4,343	6,557	2,258	1,746	16,012

16 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

In HK$ million	The Group 2005					
	Land and buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	Total
Cost						
Beginning of year	1,956	8,331	7,884	7,036	642	25,849
Additions						
– through acquisition of a subsidiary	–	229	382	147	518	1,276
– others	–	600	1,916	553	999	4,068
Transfers	(11)	221	39	130	(379)	–
Disposals	(738)	(46)	(1)	(235)	–	(1,020)
Exchange differences	–	–	–	(6)	(34)	(40)
End of year	1,207	9,335	10,220	7,625	1,746	30,133
Accumulated depreciation and impairment						
Beginning of year	137	4,025	3,019	4,647	–	11,828
Charge for the year	46	1,010	645	842	–	2,543
Impairment losses	–	–	–	50	–	50
Disposals	(84)	(45)	(1)	(165)	–	(295)
Exchange differences	–	2	–	(7)	–	(5)
End of year	99	4,992	3,663	5,367	–	14,121
Net book value						
End of year	1,108	4,343	6,557	2,258	1,746	16,012
Beginning of year	1,819	4,306	4,865	2,389	642	14,021

Land and buildings with an aggregate carrying value of approximately HK$31 million were pledged as security for certain bank borrowings of the Group as at December 31, 2006 (2005: HK$31 million).

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

In HK$ million	The Group	
	2006	2005
Held in Hong Kong		
On long lease (over 50 years)	**90**	93
On medium-term lease (10-50 years)	**890**	930
Held outside Hong Kong		
Freehold	**38**	40
Leasehold		
On medium-term lease (10-50 years)	**46**	45
	1,064	1,108

16 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

In 2005, the Group performed an annual review to reassess the useful lives of certain exchange equipment, transmission plant, and other plant and equipment of the Group, based on the experience from the Group's operational management, certification from equipment suppliers, technological trend research and future economic trend. The reassessment resulted in a change in the estimated useful lives of these assets as the current switching network would be migrated to a full Internet Protocol network which would prolong the lives of certain assets in other parts of the network. The Group considered this to be a change in accounting estimate and therefore accounted for the change prospectively from July 1, 2005. As a result of this change in accounting estimate, the Group's profit for the year ended December 31, 2005 and the net assets as at December 31, 2005 were both increased by HK$110 million.

In HK$ million	The Company **2006** **Other plant and equipment**
Cost	
Beginning of year	**5**
Additions	**–**
End of year	**5**
Accumulated depreciation and impairment	
Beginning of year	**2**
Charge for the year	**1**
End of year	**3**
Net book value	
End of year	**2**
Beginning of year	**3**

In HK$ million	The Company 2005 Other plant and equipment
Cost	
Beginning of year	5
Additions	–
End of year	5
Accumulated depreciation and impairment	
Beginning of year	2
Charge for the year	–
End of year	2
Net book value	
End of year	3
Beginning of year	3

17 INVESTMENT PROPERTIES

In HK$ million	The Group	
	2006	2005
Beginning of year	**3,390**	5,076
Additions	**127**	–
Transfers	**(2)**	–
Disposals	**–**	(1,765)
Exchange differences	**123**	77
Fair value gains	**1**	2
End of year	**3,639**	3,390

Investment properties held in and outside Hong Kong were revalued as at December 31, 2006 by an independent valuer, CB Richard Ellis Limited. The basis of valuation for investment properties was open market value.

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

In HK$ million	The Group	
	2006	2005
Held in Hong Kong		
On medium-term lease (10-50 years)	**3**	4
Held outside Hong Kong		
On long lease (over 50 years)	**730**	696
On medium-term lease (10-50 years)	**2,906**	2,690
	3,639	3,390

The Group leases out properties under operating leases. The leases typically run for an initial period of 1 to 9 years. None of the leases include contingent rentals.

As at December 31, 2006, the total future minimum lease payments in respect of investment properties and the dual use properties being accounted for as land and buildings under non-cancellable operating leases are receivable as follows:

In HK$ million	The Group	
	2006	2005
Within 1 year	**189**	208
After 1 year but within 5 years	**302**	333
After 5 years	**1**	45
	492	586

18 INTERESTS IN LEASEHOLD LAND

In HK$ million	The Group	
	2006	2005
Cost		
Beginning of year	**819**	1,364
Additions	**495**	–
Transfer to properties under development	**–**	(224)
Disposals	**–**	(321)
Exchange differences	**12**	–
End of year	**1,326**	819
Accumulated amortization		
Beginning of year	**158**	178
Charge for the year	**28**	16
Transfer to properties under development	**–**	(3)
Disposals	**–**	(33)
End of year	**186**	158
Net book value		
End of year	**1,140**	661
Beginning of year	**661**	1,186

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

In HK$ million	The Group	
	2006	2005
Held in Hong Kong		
On long lease (over 50 years)	**93**	99
On medium-term lease (10-50 years)	**533**	550
Held outside Hong Kong		
On long lease (over 50 years)	**502**	–
On medium-term lease (10-50 years)	**12**	12
	1,140	661

The leasehold land transferred to properties under development in 2005 was subject to amortization over the period of the lease on a straight-line basis. The amount of amortization charge of the leasehold land had been capitalized as part of the cost of properties under development. As at December 31, 2006, the net book value of leasehold land included in properties under development was approximately HK$221 million (2005: HK$221 million).

19 PROPERTIES UNDER DEVELOPMENT

In HK$ million	The Group	
	2006	2005
Properties under development	**3,270**	7,473
Less: Amounts classified as current assets	**(1,231)**	(5,538)
Amounts classified as non-current assets	**2,039**	1,935

Pursuant to the Cyberport Project Agreement, the Group was granted an exclusive right and obligation to design, develop, construct and market the Cyberport project at Telegraph Bay on the Hong Kong Island. The Cyberport project consists of commercial and residential portions. The completed commercial portion was transferred to the Government at no consideration. The associated costs incurred have formed part of the development costs of the residential portion. Pre-sales of the residential portion of the Cyberport project commenced in February 2003.

20 GOODWILL

In HK$ million	The Group	
	2006	2005
Cost		
Beginning of year	**2,661**	960
Additions	**479**	1,701
End of year	**3,140**	2,661
Accumulated amortization and impairment		
Beginning and end of year	**–**	–
Carrying amount		
End of year	**3,140**	2,661
Beginning of year	**2,661**	960

20 GOODWILL *(CONTINUED)*

Impairment tests for cash-generating units containing goodwill

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

In HK$ million	The Group	
	2006	2005
		(Note 44)
TSS		
PCCW Global	**585**	585
Omnilink	**120**	120
	705	705
Mobile *(note a)*	**1,939**	1,538
PCCW Solutions	**6**	6
PCPD	**168**	168
Others		
PCCW Directories	**162**	162
ChinaBig	**58**	58
Taiwan Telecommunication Network Services Co., Ltd. ("TTNS")	**78**	–
UK Broadband	**16**	16
Others	**8**	8
	322	244
Total	**3,140**	2,661

a. The unallocated goodwill of HK$1,538 million arising from the acquisition of SUNDAY in 2005 is included in the Mobile segment under the new business segments identified during the year. In 2006, the Company completed assessing the synergistic effect that the acquisition of SUNDAY would bring to the Mobile CGU and determined that the entire amount of goodwill should be allocated to the Mobile CGU.

The recoverable amount of the UK Broadband CGU is determined using the fair value less costs to sell. The fair value is based on the best information available and refers to the amount at which the CGU could be bought or sold between willing parties. No impairment was recorded for the year ended December 31, 2006 (2005: Nil).

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

Key assumptions used for value-in-use calculations:

	2006		
	Gross margin	**Growth rate**	**Discount rate**
PCCW Global	**29.5%**	**4.0%**	**14.0%**
Mobile	**65.6%**	**0%**	**11.5%**
PCCW Directories	**55.3%**	**1.0%**	**12.0%**
ChinaBig	**23.5%**	**8.2%**	**12.0%**
PCPD	**16.0%**	**0%**	**12.0%**

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

20 GOODWILL *(CONTINUED)*

There was no evidence of impairment arising from this review. The only circumstances where a reasonably possible change in key assumptions might have caused an impairment loss to be recognized was in respect of PCCW Global where:

– a fall of 0.7% in the gross margin; or
– a decrease of 1.8% in the growth rate; or
– an increase of 3.1% in the discount rate

would have caused an impairment loss to be recognized.

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

21 INTANGIBLE ASSETS

In HK$ million	The Group							
	2006							
	Trademarks	**Content licence**	**Wireless broadband licences**	**Mobile carrier licences**	**Customer base**	**Customer acquisition costs**	**Others**	**Total**
Cost								
Beginning of year	1,528	375	98	101	65	–	90	2,257
Additions	–	–	–	14	–	233	–	247
Write-off	–	–	–	–	–	(12)	(27)	(39)
Exchange differences	–	–	14	–	–	–	–	14
End of year	1,528	375	112	115	65	221	63	2,479
Accumulated amortization and impairment								
Beginning of year	410	375	51	–	16	–	79	931
Charge for the year *(note b)*	81	–	20	10	33	78	10	232
Write-off	–	–	–	–	–	(12)	(27)	(39)
Exchange differences	–	–	6	–	–	–	–	6
End of year	491	375	77	10	49	66	62	1,130
Net book value								
End of year	1,037	–	35	105	16	155	1	1,349
Beginning of year	1,118	–	47	101	49	–	11	1,326

21 INTANGIBLE ASSETS *(CONTINUED)*

In HK$ million	The Group 2005						
	Trademarks	Content licence	Wireless broadband licences	Mobile carrier licence *(Note a)*	Customer base	Others	Total
Cost							
Beginning of year	1,518	375	106	–	–	63	2,062
Additions							
– through acquisition of a subsidiary	10	–	–	101	65	7	183
– others	–	–	–	–	–	20	20
Exchange differences	–	–	(8)	–	–	–	(8)
End of year	1,528	375	98	101	65	90	2,257
Accumulated amortization and impairment							
Beginning of year	332	375	31	–	–	58	796
Charge for the year *(note b)*	78	–	20	–	16	21	135
End of year	410	375	51	–	16	79	931
Net book value							
End of year	1,118	–	47	101	49	11	1,326
Beginning of year	1,186	–	75	–	–	5	1,266

a. The 3G licence acquired from SUNDAY in 2005 is amortized over the licence period, commencing from the date of launch of the 3G services in January 2006.

b. The amortization charge for the year is included in "General and administrative expenses" in the consolidated income statement.

22 INVESTMENTS IN SUBSIDIARIES

In HK$ million	The Company	
	2006	2005
Unlisted shares, at cost	**148,401**	146,471
Capital contribution in respect of employee share-based compensation	**288**	247
	148,689	146,718
Less: Provision for impairment in value	**(128,220)**	(128,233)
	20,469	18,485

The provision for impairment in value of HK$128,220 million (2005: HK$128,233 million) relates to certain subsidiaries of the Company which hold the Group's investments in subsidiaries, jointly controlled companies, associates, debt and equity securities.

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

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

a. Amounts due from subsidiaries

In HK$ million	The Company	
	2006	2005
Amounts due from subsidiaries	**31,642**	95,320
Less: Provision for impairment	**(19,271)**	(19,281)
	12,371	76,039

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

As at December 31, 2006, the Group has financed the operations of certain of its PRC entities accounted for as subsidiaries in the form of shareholder's loans amounting to approximately US$199 million (2005: US$199 million) which have not been registered with the State Administration of Foreign Exchange. As a result, remittances in foreign currency of these amounts outside the PRC may be restricted.

b. Amounts due to subsidiaries

In HK$ million	The Company	
	2006	2005
Amounts due to subsidiaries	**–**	(67,508)

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

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
December 31, 2006
(Amount expressed in Hong Kong dollars unless otherwise stated)

22 INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

As at December 31, 2006, particulars of the principal subsidiaries of the Company are as follows:

Company name	Place of incorporation/ operations	Principal activities	Nominal value of issued capital/ registered capital	Equity interest attributable to the Group Directly	Equity interest attributable to the Group Indirectly
PCCW-HKT Limited	Hong Kong	Investment holding	HK$6,092,100,052	–	100%
PCCW-HKT Telephone Limited[1]	Hong Kong	Telecommunications services	HK$2,163,783,209	–	100%
PCCW-HKT Business Services Limited	Hong Kong	Provision of business customer premises equipment and ancillary business services	HK$2	–	100%
PCCW-HKT Network Services Limited	Hong Kong	Provision of retail international data and value-added services, local value-added telecommunications services; consumer premises equipment, business customer premises equipment, computer products and ancillary services, marketing and selling satellite master antenna television and related equipment and products and provision of maintenance services in relation thereto, manages customer loyalty programs "No.1 Club" and "**Partners**" for members of the programs	HK$3	–	100%
PCCW-HKT Technical Services Limited	Hong Kong	Provision of technical support and maintenance services	HK$500,002	–	100%
PCCW Media Limited	Hong Kong	Provision of pay television programme services and interactive multimedia services	HK$3,500,000,100 (HK$3,500,000,095 ordinary shares, HK$1 "A" Class share and HK$4 "B" Class shares)	–	100%
PCCW Teleservices (Hong Kong) Limited	Hong Kong	Provision of customer relationship management and customer contact management solutions and services	HK$2	–	100%
PCCW Teleservices Operations (Hong Kong) Limited	Hong Kong	Provision of customer relationship management and customer contact management solutions and services	HK$2	–	100%
廣州電盈綜合客戶服務技術發展有限公司[2]	The PRC	Customer service and consultancy	HK$53,803,000	–	100%
PCCW (Macau), Limitada	Macau	Telecommunications services and related value-added services	MOP2,000,000	–	75%
Cascade Limited	Hong Kong	Design, build and operate network infrastructures including technical consultancy and operation outsourcing	HK$10,000	–	100%

22 INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

Company name	Place of incorporation/ operations	Principal activities	Nominal value of issued capital/ registered capital	Equity interest attributable to the Group Directly	Indirectly
PCCW IMS Limited	Hong Kong	Provision of retail broadband and narrowband Internet access services under the "NETVIGATOR" brandname, international telecommunication services and the provision of support services to a fellow subsidiary	HK$2	–	100%
Pacific Century Systems Limited	Hong Kong	Customer premises equipment related business	HK$1,000,000	100%	–
Corporate Access Limited	Cayman Islands/ Asia Pacific	Transponder leasing	US$10	–	100%
PCCW Global (HK) Limited	Hong Kong	Provision of satellite based telecommunication services to third parties and satellite transponder capacity to a fellow subsidiary	HK$10	–	100%
PCCW Global Limited	Hong Kong	Global Internet Protocol based communication service	HK$2	–	100%
PCCW Global, Inc.	U.S.A.	Supply of broadband internet access solutions and web services	US$18	–	100%
PCCW Global (Singapore) Pte. Ltd.	Singapore	Telecommunication solutions resale services	S$2	–	100%
電訊盈科（北京）有限公司[2]	The PRC	Systems integration, consulting and informatization project	US$6,750,000	–	100%
Omnilink Technology Limited	British Virgin Islands	Investment holding	US$14,850	–	100%
Unihub China Information Technology Company Limited[3]	The PRC	Selling of hardware and software and information system consulting services	RMB200,000,000	–	38.2%
PCCW Solutions Limited	Hong Kong	Computer services and provision of IP/IT related value-added services to business customers	HK$1,200	–	100%
PCCW Business eSolutions Limited	Hong Kong	Provision of IP/IT related value-added services to business customers	HK$2	–	100%
PCCW Powerbase Data Center Services (HK) Limited	Hong Kong	Data center services	HK$2	–	100%
Power Logistics Limited	Hong Kong	Provision of logistics services	HK$100,000	–	100%
PCCW Directories Limited[1]	Hong Kong	Sale of advertising in the Business White Pages, Yellow Pages for businesses and Yellow Pages for customers, publication of directories, provision of Internet directory services and sale of on-line advertising	HK$10,000	–	100%

(Amount expressed in Hong Kong dollars unless otherwise stated)

22 INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

Company name	Place of incorporation/ operations	Principal activities	Nominal value of issued capital/ registered capital	Equity interest attributable to the Group Directly	Equity interest attributable to the Group Indirectly
ChinaBiG Limited	Hong Kong	Production and distribution of trade directory	HK$839,189	–	90.14%
Pacific Century Premium Developments Limited	Bermuda/ Hong Kong	Investment holding	HK$240,245,987	–	61.66%
Cyber-Port Limited	Hong Kong	Property development	HK$2	–	61.66%
Beijing Jing Wei House and Land Estate Development Co., Ltd.[4]	The PRC	Property development	US$100,000,000	–	61.66%
北京啟夏房地產開發有限公司[2]	The PRC	Property development	US$33,000,000	–	61.66%
Talent Master Investments Limited	British Virgin Islands/ Hong Kong	Property development	US$1	–	61.66%
Taiwan Telecommunication Network Services Co., Ltd.	Republic of China	Type II Telecommunications services provider	NT$1,087,000,000	–	62.56%
SUNDAY Communications Limited (in voluntary liquidation)	Incorporated in the Cayman Islands and re-domiciled to the British Virgin Islands	Investment holding	HK$299,000,000	–	79.35%
SUNDAY Holdings (Hong Kong) Corporation	British Virgin Islands	Investment holding	US$112	–	100%
Mandarin Communications Limited (now known as PCCW Mobile HK Limited)	Hong Kong	Provision of mobile services, and sales of mobile phones and accessories	HK$1,254,000,100 (HK$100 ordinary shares, and HK$1,254,000,000 non-voting deferred shares)	–	100%
SUNDAY 3G (Hong Kong) Limited	Hong Kong	Licensee of Hong Kong 3G Licence	HK$2	–	100%
UK Broadband Limited	United Kingdom	Public Fixed Wireless Access Licence Business	GBP1	–	100%

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

Notes:
1 The subsidiary has accounting year end date of March 31. These subsidiaries prepare, for the purpose of consolidation, financial statements as at the same date as the Group.
2 Represents a wholly foreign owned enterprise.
3 Represents a sino-foreign equity joint venture.
4 Represents a sino-foreign cooperative joint venture.

23 INTEREST IN JOINTLY CONTROLLED COMPANIES

In HK$ million	The Group 2006	2005
Share of net assets of jointly controlled companies, net of unrecognized losses	**2,815**	2,815
Loans due from jointly controlled companies	**8**	8
Amounts due from jointly controlled companies	**24**	24
	2,847	2,847
Provision for impairment	**(2,837)**	(2,837)
	10	10
Investments at cost, unlisted shares	**3,130**	3,130

Balances with jointly controlled companies are unsecured, non-interest bearing and have no fixed terms of repayment.

As at December 31, 2006, particulars of the principal jointly controlled company of the Group are as follows:

Company name	Place of incorporation	Principal activities	Nominal value of issued capital/ registered capital	Equity interest attributable to the Group Directly	Indirectly
Reach Ltd.	Bermuda	Provision of international telecommunication services	US$5,890,000,000	–	50%

Summarized unaudited financial information of Group's interest in jointly controlled companies is as follows:

In HK$ million	2006	2005
Non-current assets	**768**	839
Current assets	**616**	1,122
Total assets	**1,384**	1,961
Non-current liabilities	**(341)**	(489)
Current liabilities	**(1,842)**	(2,326)
Net liabilities	**(799)**	(854)
Turnover	**2,264**	2,746
Expenses	**(2,213)**	(2,372)
Profit before taxation	**51**	374
Taxation	**(7)**	(34)
Profit for the year	**44**	340

24 INTEREST IN ASSOCIATES

In HK$ million	The Group		The Company	
	2006	2005	**2006**	2005
Share of net assets of associates, net of unrecognized losses	**698**	758	**–**	–
Loans due from an associate	**78**	78	**–**	–
Amounts due from an associate	**34**	34	**–**	1
	810	870	**–**	1
Provision for impairment	**(173)**	(175)	**–**	–
	637	695	**–**	1
Investments at cost, unlisted shares	**975**	975	**–**	–

Balances with associates are unsecured, non-interest bearing and have no fixed terms of repayment.

As at December 31, 2006, particulars of the principal associates of the Group are as follows:

Company name	Place of incorporation/ operations	Principal activities	Nominal value of issued capital/ registered capital	Equity interest attributable to the Group Directly	Indirectly
Great Eastern Telecommunications Limited*	Cayman Islands	Non-trading	US$43,112,715	–	49%
Abacus Distribution Systems (Hong Kong) Limited	Hong Kong	Provision of computer reservation systems and travel related services	HK$15,600,000	–	37.04%
石化盈科信息技術有限責任公司	The PRC	Design and development of Enterprise Resource Planning systems, and customer relationship management systems	RMB50,000,000	–	45%

* The associate has accounting year end date of March 31. The associate prepares, for the purpose of consolidation, financial statements as at the same date as the Group.

Summarized unaudited financial information of the associates of the Group is as follows:

In HK$ million	**2006**	2005
Total assets	**1,615**	1,674
Total liabilities	**(316)**	(230)
Turnover	**622**	497
Profit after taxation	**55**	447

During the year ended December 31, 2006, the Group has not recognized its share of losses of its associates amounting to approximately HK$2 million (2005: HK$1 million). As at December 31, 2006, the accumulated share of losses of the associates unrecognized by the Group was HK$8 million (2005: HK$6 million).

25 INVESTMENTS

Investments are analyzed as follows:

In HK$ million	The Group 2006	2005
Held-to-maturity investments	**12**	18
Available-for-sale financial assets *(note a)*	**496**	526
Financial assets at fair value through profit or loss *(note b)*	**50**	312
	558	856

a. Available-for-sale financial assets

In HK$ million	The Group 2006	2005
Listed		
Hong Kong	**–**	101
Overseas	**37**	1
	37	102
Unlisted	**459**	424
	496	526
Market value of listed securities	**37**	102

During the year, available-for-sale financial assets with a carrying value of approximately HK$101 million (2005: HK$87 million) were sold and approximately HK$88 million (2005: Nil) was transferred from equity on disposal (see note 33). As a result, a realized gain of approximately HK$88 million (2005: HK$67 million) was recognized and included in "Other gains, net" in the consolidated income statement.

As at December 31, 2006, available-for-sale financial assets with an aggregate carrying value of approximately HK$21 million (2005: HK$21 million) were pledged as security for certain bank borrowings of the Group.

b. Financial assets at fair value through profit or loss

In HK$ million	The Group 2006	2005
Listed		
Hong Kong	**4**	255
Unlisted	**46**	57
	50	312

In 2002, the Group entered into certain derivative contracts, in the form of equity swap and equity option contracts, with a third party with the effect of entering into forward sales of a portion of certain quoted investments plus written call options held by the counterparty for the remaining portion of those quoted investments. As at December 31, 2005, the underlying quoted investments with aggregate carrying value of approximately HK$178 million were placed as collateral for the transaction. All the equity swap contracts were terminated and the underlying quoted investments were sold in October 2006 (see note 29(c)).

26 CURRENT ASSETS AND LIABILITIES

a. Sales proceeds held in stakeholders' accounts

The balance represents proceeds from the sales of the residential portion of the Cyberport project retained in bank accounts opened and maintained by stakeholders. These amounts will be transferred to specific bank accounts, which are restricted in use, pursuant to certain conditions and procedures as stated in the Cyberport Project Agreement.

b. Restricted cash

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

In addition, the Company has set aside a total cash balance of approximately HK$4,301 million as at December 31, 2006 (2005: Nil) in connection with the release of undertakings, details of which are set out in note 33(a).

The remaining HK$1 million as at December 31, 2006 (2005: HK$1 million) represented a bank deposit placed by an indirect subsidiary of the Company as a security for a bank guarantee issued in respect of the use of facilities at the Hong Kong International Airport for the provision of mobile services.

In addition, the Group had a restricted cash balance of approximately HK$259 million as at December 31, 2005 which represented a bank deposit placed by an indirect wholly-owned subsidiary of the Company as a security for a bank guarantee issued in favour of the Company in connection with the undertakings as set out in note 33(a)(iii). In April 2006, the restricted cash balance was released following the release of the undertakings effective on March 27, 2006.

c. Prepayments, deposits and other current assets

Included in prepayments, deposits and other current assets was prepaid programme costs of approximately HK$54 million as at December 31, 2006 (2005: HK$37 million).

d. Inventories

In HK$ million	The Group	
	2006	2005
Work-in-progress	**375**	417
Finished goods	**152**	103
Consumable inventories	**17**	14
	544	534

e. Investment in unconsolidated subsidiaries held for sale

In respect of the reverse acquisition of DFG in 2004, considering that certain subsidiaries of DFG were acquired and held exclusively with a view to resale, the investment in those subsidiaries of PCPD was accounted for as investment in unconsolidated subsidiaries held for sale and stated at the lower of carrying amount and fair value less costs to sell, of approximately HK$45 million as at December 31, 2005.

In 2006, the disposal of the investment in unconsolidated subsidiaries held for sale was completed and the investment was derecognized accordingly. The proceeds from the disposal were receivable in instalments. A provision of HK$25 million was made for the receivable considered doubtful and the receivable balance as at December 31, 2006 was reduced to HK$10 million, which was fully settled in January 2007.

26 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

f. Accounts receivable, net

An aging analysis of accounts receivable is set out below:

In HK$ million	The Group	
	2006	2005
0 – 30 days	**1,759**	1,247
31 – 60 days	**370**	354
61 – 90 days	**143**	110
91 – 120 days	**111**	107
Over 120 days	**463**	466
	2,846	2,284
Less: Impairment loss for doubtful debts	**(266)**	(228)
	2,580	2,056

The carrying amounts of net accounts receivable are denominated in the following currencies:

In HK$ million	The Group	
	2006	2005
Hong Kong Dollars	**1,791**	1,602
United States Dollars	**462**	230
Chinese Renminbi	**270**	185
New Taiwan Dollars	**40**	30
Others	**17**	9
	2,580	2,056

g. Short-term borrowings

In HK$ million	The Group		The Company	
	2006	2005	**2006**	2005
Bank loans	**6,311**	6,500	**6,300**	–
Current portion of long-term borrowings *(note 27(a))*	**3,521**	–	**–**	–
Convertible note and bonds *(note 27(b))*	**4,163**	–	**–**	–
	13,995	6,500	**6,300**	–
Secured	**11**	–	**–**	–
Unsecured	**13,984**	6,500	**6,300**	–

The carrying amounts of the short-term borrowings are denominated in the following currencies:

In HK$ million	The Group		The Company	
	2006	2005	**2006**	2005
Hong Kong Dollars	**6,300**	6,500	**6,300**	–
United States Dollars	**7,684**	–	**–**	–
Chinese Renminbi	**11**	–	**–**	–
	13,995	6,500	**6,300**	–

Please refer to note 41 for details of the Group's banking facilities.

26 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

h. Accounts payable

An aging analysis of accounts payable is set out below:

In HK$ million	The Group	
	2006	2005
0 – 30 days	**598**	648
31 – 60 days	**90**	82
61 – 90 days	**16**	43
91 – 120 days	**54**	49
Over 120 days	**264**	175
	1,022	997

The carrying amounts of the accounts payable are denominated in the following currencies:

In HK$ million	The Group	
	2006	2005
Hong Kong Dollars	**483**	651
United States Dollars	**202**	110
Chinese Renminbi	**274**	204
New Taiwan Dollars	**54**	28
Others	**9**	4
	1,022	997

i. Gross amount due to customers for contract work

In HK$ million	The Group	
	2006	2005
Contract costs incurred plus attributable profits less foreseeable losses	**779**	784
Less: Estimated value of work performed	**(786)**	(795)
	(7)	(11)

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

Included in non-current assets at December 31, 2006 was approximately HK$8 million (2005: HK$8 million) representing retention receivable from customers in respect of construction contracts in progress.

27 LONG-TERM LIABILITIES

In HK$ million	The Group	
	2006	2005
Long-term borrowings *(note a)*	**15,438**	18,885
Convertible note and bonds *(note b)*	**–**	3,972
	15,438	22,857

a. Long-term borrowings

In HK$ million	The Group	
	2006	2005
Repayable within a period		
– not exceeding one year	**3,521**	–
– over two years, but not exceeding five years	**7,731**	–
– over five years	**7,707**	18,885
	18,959	18,885
Less: Amounts repayable within one year included under current liabilities *(note 26(g))*:		
US$456 million 7.88% guaranteed notes due 2013 *(note ii)*	**(3,521)**	–
	15,438	18,885
Representing:		
US$1,000 million 8% guaranteed notes due 2011 *(note i)*	**7,731**	7,701
US$456 million 7.88% guaranteed notes due 2013 *(note ii)*	**–**	3,508
US$500 million 6% guaranteed notes due 2013 *(note iii)*	**3,862**	3,847
US$500 million 5.25% guaranteed notes due 2015 *(note iv)*	**3,845**	3,829
	15,438	18,885
Secured	**–**	–
Unsecured	**15,438**	18,885

Details of major long-term borrowings of HK$18,959 million (2005: HK$18,885 million) of the Group are presented below:

i. US$1,000 million 8% guaranteed notes due 2011

In November 2001, PCCW-HKT Capital Limited, an indirect wholly-owned subsidiary of the Company, issued US$1,000 million 7.75% guaranteed notes due 2011 (the "Notes due 2011"). Interest is payable semi-annually in arrears. The interest rate payable on the Notes due 2011 will be subject to adjustment from time to time if the relevant rating agencies downgrade the rating ascribed to the Notes due 2011 below a pre-agreed level. The interest rate payable on the Notes due 2011 has been adjusted to 8% based on the current ratings.

The Notes due 2011 are unconditionally and irrevocably guaranteed by PCCW–HKT Telephone Limited ("HKTC"), an indirect wholly-owned subsidiary of the Company, and will rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC.

ii. US$456 million 7.88% guaranteed notes due 2013

On January 24, 2003, PCCW Capital No. 3 Limited, an indirect wholly-owned subsidiary of the Company, privately placed US$456 million 7.88% guaranteed notes due 2013 to raise funds for general corporate purposes. The notes were listed on the Luxembourg Stock Exchange and were unconditionally and irrevocably guaranteed by the Company until May 12, 2004. On May 12, 2004, the noteholders approved the novation of the guarantee to HKTC and amendments to certain terms of the notes. Subsequent to December 31, 2006, these guaranteed notes were fully redeemed on January 24, 2007.

27 LONG-TERM LIABILITIES *(CONTINUED)*

a. Long-term borrowings *(continued)*

iii. US$500 million 6% guaranteed notes due 2013

On July 17, 2003, PCCW-HKT Capital No.2 Limited, an indirect wholly-owned subsidiary of the Company, issued US$500 million 6% guaranteed notes due 2013 which are listed on the Luxembourg Stock Exchange. The notes are irrevocably and unconditionally guaranteed by HKTC and will rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC. The proceeds are used for general corporate purposes.

iv. US$500 million 5.25% guaranteed notes due 2015

On July 20, 2005, PCCW-HKT Capital No.3 Limited, an indirect wholly-owned subsidiary of the Company, issued US$500 million 5.25% guaranteed notes due 2015, which are listed on the Singapore Exchange Securities Trading Limited. Interest is payable semi-annually in arrears. The notes are irrevocably and unconditionally guaranteed by HKTC and will rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC. The proceeds are used for general corporate purposes.

Please refer to note 41 for details of the Group's banking facilities.

b. Convertible note and bonds

In HK$ million	The Group	
	2006	2005
Repayable within a period		
– not exceeding one year	**4,163**	–
– over one year, but not exceeding two years	**–**	3,972
	4,163	3,972
Less: Amounts repayable within one year included under current liabilities *(note 26(g))*:		
US$450 million 1% guaranteed convertible bonds due 2007 *(note i)*	**(4,163)**	–
	–	3,972
Representing:		
US$450 million 1% guaranteed convertible bonds due 2007 *(note i)*	**–**	3,972
Secured	**–**	–
Unsecured	**–**	3,972

Details of convertible note and bonds of HK$4,163 million (2005: HK$3,972 million) of the Group are presented below:

i. US$450 million 1% guaranteed convertible bonds due 2007

On January 29, 2002, PCCW Capital No. 2 Limited, an indirect wholly-owned subsidiary of the Company, issued US$450 million 1% guaranteed convertible bonds due 2007, which were unconditionally and irrevocably guaranteed on a joint and several basis by the Company and HKTC. The convertible bonds due 2007 were listed on the Luxembourg Stock Exchange. They were convertible, at the option of their holders, into ordinary shares of the Company at an initial conversion price of HK$13.5836 (approximately US$1.7415) per share at any time up to and including the close of business on January 15, 2007. The bonds bore interest at 1% per annum, payable semi-annually in arrears on January 29 and July 29 in each year and at maturity, commencing on July 29, 2002. These bonds were redeemed in US dollars at 119.383% of their principal amount, plus accrued interest on January 29, 2007. The redemption was in cash and not by conversion into ordinary shares of the Company.

The convertible bonds due 2007 were split into the liability and equity components at initial recognition. Interest expense on the convertible bonds is calculated using the effective interest method by applying the effective interest rate of 5.3% to the liability component, including the redemption premium.

As at December 31, 2006, none of the above-mentioned convertible note and bonds had been converted into ordinary shares of the Company.

28 PROVISIONS

In HK$ million	The Group		
	2006		
	Payment to the Government *(Note a)*	**Others**	**Total**
Beginning of year	**6,705**	**29**	**6,734**
Additional provisions included in properties under development	**390**	**–**	**390**
Additional provisions made	**–**	**16**	**16**
Provisions settled	**(3,615)**	**(20)**	**(3,635)**
End of year	**3,480**	**25**	**3,505**
Less: Amounts classified as current liabilities	**(1,889)**	**(25)**	**(1,914)**
Amounts classified as non-current liabilities	**1,591**	**–**	**1,591**

a. Pursuant to the Cyberport Project Agreement, the Government shall be entitled to receive payments of approximately 65% from the surplus cash flow arising from the sales of the residential portion of the Cyberport project, net of certain allowable costs incurred on the project, as stipulated under certain terms and conditions of the Cyberport Project Agreement. Provision for payment to the Government is included in properties under development as the amount is considered as a part of the development costs of the Cyberport project. The provision is based on estimated sales proceeds of the residential portion of the Cyberport project and the estimated development costs of the Cyberport project. The estimated amount to be paid to the Government during the forthcoming year is classified as current liabilities.

29 DERIVATIVE FINANCIAL INSTRUMENTS

In HK$ million	The Group		The Company	
	2006	2005	**2006**	2005
Current assets				
Cross currency swaps *(note a)*	**–**	42	**–**	–
Interest rate option *(note b)*	**–**	–	**–**	–
Equity swap and equity option *(note c)*	**–**	60	**–**	–
	–	102	**–**	–
Current liabilities				
Cross currency swaps *(note a)*	**(555)**	(62)	**(6)**	(15)

a. As at December 31, 2006, the Group had outstanding cross currency swap contracts with notional amounts of US$2,906 million (approximately HK$22,616 million) (2005: US$2,406 million (approximately HK$18,767 million)) at various rates respectively, to manage the Group's exposure to foreign currencies fluctuations. The Company had outstanding cross currency swap contracts with notional amounts of US$450 million (approximately HK$3,506 million) (2005: US$450 million (approximately HK$3,510 million)) at various rates respectively.

The carrying amounts of cross currency swap contracts represent either the fair value receivables, which are included in current assets, or fair value payables, which are included current liabilities, as at December 31, 2006.

During the year, certain cross currency swap contracts were designated as cash flow hedges for certain of the Group's foreign currency denominated long-term liabilities, details of which are set out in note 38(d).

b. The Group enters into interest rate options to manage its interest rate risk. As at December 31, 2006, the total notional amount of such instruments was HK$28 million (2005: HK$38 million) and the carrying amount of such instruments was nil (2005: Nil).

29 DERIVATIVE FINANCIAL INSTRUMENTS *(CONTINUED)*

c. In 2002, the Group entered into certain derivative contracts, in the form of equity swap and equity option contracts, with a third party with the effect of entering into forward sales of a portion of certain quoted other investments plus written call options held by the counterparty for the remaining portion of those quoted other investments. The deemed forward sales effectively eliminated the Group's exposure to market price fluctuation and accordingly, the underlying quoted other investments were carried at the deemed forward price as at December 31, 2002. An advance receipt of approximately HK$187 million for the deemed forward sales was received in 2002. The Group also received premiums of approximately HK$25 million for the written call options with notional amount of approximately HK$71 million. The underlying quoted other investments for both the deemed forward sales and written call options have been placed as collateral for the above equity swap and equity option transactions (note 25(b)).

Each of these equity swap contracts comprised a debt instrument (the host contract) and embedded derivatives that were indexed to the prices of the equity investments. The debt instrument was carried at amortized cost while the compound embedded derivatives were bifurcated from the host contract and were separately accounted for in the financial statements at their fair market value at each balance sheet date. As at December 31, 2005, the carrying amount of the debt instrument and the compound derivatives was HK$206 million, which was included in "Other long-term liabilities", and HK$60 million, which was included in "Derivative financial instruments" under current assets, respectively. All the equity swap contracts were terminated in October 2006 and a gain of approximately HK$1 million was recognized and reflected under "Other gains, net" in the consolidated income statement for the year ended December 31, 2006.

No new derivative contract of this nature was entered into by the Group in 2006 and 2005.

30 SHARE CAPITAL

	2006		2005	
	Number of shares	**Nominal value HK$ million**	Number of shares	Nominal value HK$ million
Authorized:				
Ordinary shares of HK$0.25 each				
Beginning of year	**10,000,000,000**	**2,500**	6,400,000,000	1,600
Increase during the year *(note a)*	**–**	**–**	3,600,000,000	900
End of year	**10,000,000,000**	**2,500**	10,000,000,000	2,500
Issued and fully paid:				
Ordinary shares of HK$0.25 each				
Beginning of year	**6,723,020,490**	**1,681**	5,374,263,061	1,344
Exercise of employee share options *(note b)*	**27,150,827**	**7**	5,185,663	1
Issued for cash *(note c)*	**–**	**–**	1,343,571,766	336
End of year	**6,750,171,317**	**1,688**	6,723,020,490	1,681

a. Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held 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 an additional 3,600,000,000 ordinary shares of HK$0.25 each, ranking pari passu with the existing shares of the Company.

b. During 2006, 27,150,827 (2005: 5,185,663) employee share options were exercised by the eligible option holders at their respective subscription prices for a total cash consideration of HK$119,277,935 (2005: HK$22,557,634) resulting in the issue of 27,150,827 (2005: 5,185,663) new ordinary shares of HK$0.25 each, details of which are set out in note 32(a)(iv).

30 SHARE CAPITAL *(CONTINUED)*

c. Upon the completion of the subscription by China Netcom Group on April 1, 2005, China Netcom Corporation (BVI) Limited, an indirect wholly-owned subsidiary of China Netcom Group, subscribed for 1,343,571,766 new ordinary shares of the Company of HK$0.25 each at a price of HK$5.90 per share. The proceeds from the subscription were approximately HK$7,927 million (before deduction of expenses), of which up to HK$5,000 million may be used for investing in telecommunications opportunities in the PRC and the remainder may be used for reducing the Group's debt and general corporate purposes.

All new ordinary shares issued during the year rank pari passu in all respects with the existing shares.

31 EMPLOYEE RETIREMENT BENEFITS

a. Defined benefit retirement schemes

The Group operates defined benefit retirement schemes ("DB Schemes") that provide lump sum benefits for employees upon resignation and retirement. The DB Schemes are final salary defined benefit schemes. The scheme assets are administered by independent trustees and are maintained independently of the Group's finances.

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

On October 31, 2005, all the benefits of active members in respect of service before July 1, 2003 (i.e. the date on which all active members of the DB Schemes were transferred to defined contribution schemes operated by the Group for future services, with their benefits prior to that date remaining unchanged) were transferred to defined contribution schemes operated by the Group ("Transfer of past DB benefits") effective November 1, 2005. The value of the benefits of each member transferred was calculated to be the benefit entitlement of such members as at October 31, 2005, plus enhancement, if any. Enhancement is 50% of the increase in vested benefit, if any, which would have accrued to such members during the period from October 31, 2005 to January 31, 2006, assuming the transfer did not occur until January 31, 2006. After the Transfer of past DB benefits, the DB Schemes no longer have a defined benefit obligation in respect of the active members. This Transfer of past DB benefits was considered as a curtailment and settlement event under HKAS 19 "Employee Benefits". The Group has injected HK$64 million to the DB Schemes to make up part of the funding deficit as at October 31, 2005. An one-off curtailment and settlement gain of HK$197 million was recognized in the consolidated income statement for the year ended December 31, 2005.

The latest independent actuarial valuation of the DB Schemes, prepared in accordance with HKAS 19, was carried out on December 31, 2006 and was prepared by Mr Ray Chan of Watson Wyatt Hong Kong Limited, fellow of the Society of Actuaries, USA, using the projected unit credit method. The actuary was of the opinion that the fair value of the scheme assets was sufficient to cover 87.8% (2005: 92.5%) of the present value of the defined benefit obligations as at December 31, 2006.

i. The amount recognized in the consolidated balance sheet is as follows:

In HK$ million	The Group	
	2006	2005
Present value of the defined benefit obligations	**237**	228
Fair value of scheme assets	**(208)**	(211)
	29	17
Unrecognized actuarial losses	**(18)**	(4)
Defined benefit liability in the consolidated balance sheet	**11**	13

No employer's contributions are expected to be paid to the scheme in 2007.

31 EMPLOYEE RETIREMENT BENEFITS *(CONTINUED)*

a. Defined benefit retirement schemes *(continued)*

ii. Major categories of scheme assets as a percentage of total scheme assets are as follows:

	The Group	
	2006	2005
Equity securities	**–**	1%
Cash or short-term fixed deposits	**100%**	99%
	100%	100%

As at December 31, 2006, the scheme assets do not include any ordinary shares issued by the Company (2005: Nil).

iii. Movements in the present value of the defined benefit obligations are as follows:

In HK$ million	The Group	
	2006	2005
Beginning of year	**228**	3,984
Benefits paid	**(11)**	(157)
Interest cost	**10**	131
Actuarial losses/(gains)	**10**	(162)
Curtailment	**–**	(101)
Settlement	**–**	(3,467)
End of year	**237**	228

iv. Movements in the present value of scheme assets are as follows:

In HK$ million	The Group	
	2006	2005
Beginning of year	**211**	3,691
Contributions paid	**–**	64
Benefits paid	**(11)**	(157)
Expected return on scheme assets	**12**	174
Actuarial losses	**(4)**	(94)
Settlement	**–**	(3,467)
End of year	**208**	211

31 EMPLOYEE RETIREMENT BENEFITS *(CONTINUED)*

a. Defined benefit retirement schemes *(continued)*

v. (Income)/Expense recognized in the consolidated income statement is as follows:

In HK$ million	The Group	
	2006	2005
Interest cost	**10**	131
Expected return on scheme assets	**(12)**	(174)
Gain on curtailment/settlement	**–**	(197)
	(2)	(240)
The income is recognized in the following line item in the consolidated income statement:		
General and administrative expenses – retirement costs for other staff *(note 9(a))*	**(2)**	(240)
Actual return on scheme assets	**8**	80

vi. The principal actuarial assumptions used (expressed as weighted averages) are as follows:

	The Group	
	2006	2005
Discount rate	**4.00%**	4.25%
Expected rate of return on scheme assets	**5.75%**	5.75%
Future pension increase	**3.00%**	3.00%

The expected rate of return on scheme assets is based on the long-term benchmark allocation of the scheme.

vii. Historical information:

In HK$ million	The Group
	2006
Present value of the defined benefit obligations	**237**
Fair value of scheme assets	**(208)**
Deficit in the scheme	**29**
Experience losses on scheme liabilities	**2**
Experience losses on scheme assets	**4**

b. Defined contribution retirement scheme

The Group also operates defined contribution schemes, including the Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The schemes are administered by independent trustees.

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

Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the scheme vest immediately upon the completion of the service in the relevant service period.

(Amount expressed in Hong Kong dollars unless otherwise stated)

32 EQUITY COMPENSATION BENEFITS

a. Share option schemes of the Company

The Company has a share option scheme (the "1994 Scheme") which was adopted in September 1994 and amended in May 2002 under which the board of directors (the "Board") of the Company may, at its discretion, invite employees of the Group, including directors of any company in the Group, and other eligible persons, to take up options to subscribe for shares of the Company. The vesting period and exercise period of the options are determined by the Board but in any case no options can be exercised later than 10 years from the date of grant. Each option gives the holder the right to subscribe for one share. The 1994 Scheme was due to expire in September 2004.

At the Company's annual general meeting held on May 19, 2004, the shareholders of the Company approved the termination of the 1994 Scheme and the adoption of a new share option scheme (the "2004 Scheme"). Since May 19, 2004, the Board may, at its discretion, grant share options to any eligible person to subscribe for shares in the Company subject to the terms and conditions stipulated in the 2004 Scheme. The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2004 Scheme and any other share option schemes including 1994 Scheme must not exceed 30% of the shares in issue from time to time. In addition, the maximum number of shares which may be granted under the 2004 Scheme must not exceed 10% of the Company's issued share capital as at May 19, 2004 (or some other date if renewal of this limit is approved by shareholders). The exercise price of the options under the 2004 Scheme shall be determined by the Board at its absolute discretion but in any event shall not be less than the highest of (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, (ii) the average closing price of the shares as stated in the daily quotations sheet of the Stock Exchange for the five days last preceding the date of grant on which days it has been possible to trade shares on the Stock Exchange, and (iii) the nominal value of a share on the date of grant. The vesting period and exercise period of the options are determined by the Board, but no option can be exercised later than the day last preceding the tenth anniversary of the date of grant in respect of such option. In general, the subscription price is determined by reference to the closing prices of the shares as stated in the daily quotations sheet of the Stock Exchange. The basis for determination of the subscription price and the total number of shares that can be granted to eligible persons are precisely specified in the rules of the 2004 Scheme. The 2004 Scheme does not specify a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

i. Movements in the number of share options outstanding and their related weighted average exercise prices

	2006		2005	
	Weighted average exercise price HK$	**Number of options**	Weighted average exercise price HK$	Number of options
Beginning of year	**9.49**	**231,498,073**	11.26	178,742,716
Issued *(note iii)*	**4.92**	**25,000,000**	4.55	75,924,000
Exercised *(note iv)*	**4.39**	**(27,150,827)**	4.35	(5,185,663)
Cancelled/Lapsed *(note v)*	**19.06**	**(18,230,418)**	7.73	(17,982,980)
End of year *(note ii)*	**8.78**	**211,116,828**	9.49	231,498,073
Exercisable at end of year	**10.34**	**152,323,328**	13.62	123,852,906

32 EQUITY COMPENSATION BENEFITS *(CONTINUED)*

a. Share option schemes of the Company *(continued)*

ii. Terms of unexpired and unexercised share options at balance sheet date

Date of grant	Vesting period	Exercise period	Exercise price HK$	Number of options 2006	Number of options 2005
August 17, 1999 to September 15, 1999	August 17, 2000 to August 17, 2004	August 17, 2000 to August 17, 2009	11.7800	**14,137,058**	16,412,125
October 25, 1999 to November 23, 1999	October 25, 2000 to October 25, 2004	October 25, 2000 to October 25, 2009	22.7600	**3,184,400**	3,370,400
February 8, 2000 to March 8, 2000	February 8, 2001 to February 8, 2003	February 8, 2001 to February 8, 2010	75.2400	**86,700**	86,700
August 26, 2000 to September 24, 2000	May 26, 2001 to May 26, 2005	May 26, 2001 to August 26, 2010	60.1200	**6,571,200**	9,887,200
October 27, 2000 to November 25, 2000	March 15, 2001 to March 15, 2005	March 15, 2001 to October 27, 2010	24.3600	**9,218,282**	9,989,790
January 22, 2001 to February 20, 2001	January 22, 2001 to January 22, 2005	January 22, 2001 to January 22, 2011	16.8400	**12,673,839**	16,368,452
February 20, 2001	February 8, 2002 to February 8, 2004	February 8, 2002 to February 8, 2011	18.7600	**86,700**	86,700
April 17, 2001 to May 16, 2001	May 26, 2001 to May 26,2005	May 26, 2001 to April 17, 2011	10.3000	**1,122,560**	1,147,040
July 16, 2001 to September 15, 2001	July 16, 2002 to July 16, 2004	July 16, 2002 to July 16, 2011	9.1600	**272,680**	365,760
October 15, 2001 to November 13, 2001	October 15, 2002 to October 15, 2004	October 15, 2002 to October 15, 2011	8.6400	**120,000**	120,000
May 10, 2002	April 11, 2003 to April 11, 2007	April 11, 2003 to April 11, 2012	7.9150	**86,700**	86,700
August 1, 2002	August 1, 2003 to August 1, 2005	August 1, 2003 to July 31, 2012	8.0600	**200,000**	200,000
October 11, 2002	October 11, 2002	October 11, 2002 to October 10, 2007	8.6165	**1,200,000**	1,200,000
November 13, 2002	November 13, 2003 to November 13, 2005	November 13, 2003 to November 12, 2012	6.1500	**6,680,000**	6,820,000
July 25, 2003	July 25, 2004 to July 25, 2006	July 25, 2004 to July 23, 2013	4.3500	**71,006,209**	92,568,206
September 16, 2003	September 16, 2004 to September 16, 2006	September 16, 2004 to September 14, 2013	4.9000	**177,000**	190,000
February 8, 2005	February 8, 2006 to February 8, 2007	February 8, 2006 to February 7, 2009	4.4750	**52,293,500**	65,599,000
September 1, 2005	September 1, 2006 to September 1, 2008	September 1, 2006 to August 31, 2010	5.2500	**7,000,000**	7,000,000
September 15, 2006	September 15, 2007 to September 15, 2009	September 15, 2007 to September 14, 2010	4.9240	**25,000,000**	–
				211,116,828	231,498,073

(Amount expressed in Hong Kong dollars unless otherwise stated)

32 EQUITY COMPENSATION BENEFITS *(CONTINUED)*

a. Share option schemes of the Company *(continued)*

ii. Terms of unexpired and unexercised share options at balance sheet date *(continued)*

The range of exercise prices and the weighted average remaining contractual life of the share options outstanding are as follows:

Range of exercise prices	2006 Weighted average remaining contractual life (years)	2006 Number of options	2005 Weighted average remaining contractual life (years)	2005 Number of options
HK$4.01 to 5.04	**4.51**	**148,476,709**	5.71	158,357,206
5.05 to 7.54	**4.74**	**13,680,000**	5.76	13,820,000
7.55 to 11.29	**3.05**	**3,001,940**	4.10	3,119,500
11.30 to 16.79	**2.63**	**14,137,058**	3.63	16,412,125
16.80 to 25.04	**3.82**	**25,163,221**	4.84	29,815,342
55.05 to 70.04	**3.65**	**6,571,200**	4.65	9,887,200
70.05 to 85.00	**3.10**	**86,700**	4.10	86,700
		211,116,828		231,498,073

iii. Details of share options granted during the year

Vesting period	Exercise period	Exercise price HK$	2006 Consideration received HK$	2006 Number of options	2005 Consideration received HK$	2005 Number of options
February 8, 2006 to February 8, 2007	February 8, 2006 to February 7, 2009	4.4750	**–**	**–**	–	68,924,000
September 1, 2006 to September 1, 2008	September 1, 2006 to August 31, 2010	5.2500	**–**	**–**	–	7,000,000
September 15, 2007 to September 15, 2009	September 15, 2007 to September 14, 2010	4.9240	**–**	**25,000,000**	–	–
			–	**25,000,000**	–	75,924,000

The fair value of share options granted during the year is determined using the trinomial option pricing model. The weighted average fair value of share options granted and the respective weighted average inputs and assumptions to the model are as follows:

	2006	2005
Fair value at measurement date	**HK$0.95**	HK$0.99
Share price	**HK$4.92**	HK$4.55
Exercise price	**HK$4.92**	HK$4.55
Expected volatility	**27.66%**	31.53%
Expected option life (in years)	**4 years**	4.09 years
Expected dividends	**3.78%**	3.33%
Risk-free interest rate	**3.94%**	2.54%

32 EQUITY COMPENSATION BENEFITS *(CONTINUED)*

a. Share option schemes of the Company *(continued)*

iii. Details of share options granted during the year *(continued)*

The expected volatility is based on statistical analysis of daily share prices over one year immediately preceding the grant date. Expected dividends are based on historical dividends. Risk-free interest rate is based on the market yield of Exchange Fund Notes with a term similar to the expected option life.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

iv. Details of share options exercised during the year

			2006		2005	
Exercise date	Exercise price HK$	Market value per share at exercise date HK$	**Proceeds received HK$**	**Number of options**	Proceeds received HK$	Number of options
January 3, 2005 to December 9, 2005	4.3500	4.48 to 5.35	**–**	**–**	22,557,634	5,185,663
January 4, 2006 to December 29, 2006	4.3500	4.67 to 5.75	**77,518,422**	**17,820,327**	–	–
February 8, 2006 to November 28, 2006	4.4750	4.65 to 5.75	**41,695,813**	**9,317,500**	–	–
February 8, 2006	4.9000	5.55	**63,700**	**13,000**	–	–
			119,277,935	**27,150,827**	22,557,634	5,185,663

The weighted average share price at the date of exercise for share options exercised during the year was HK$5.28 (2005: HK$5.07).

v. Details of share options cancelled or lapsed during the year

		Number of options	
Exercise period	Exercise price HK$	**2006**	2005
August 17, 2000 to August 17, 2009	11.7800	**2,275,067**	2,460,265
August 17, 2000 to October 25, 2009	22.7600	**186,000**	62,000
May 26, 2001 to August 26, 2010	60.1200	**3,316,000**	59,400
March 15, 2001 to October 27, 2010	24.3600	**771,508**	1,095,280
January 22, 2001 to January 22, 2011	16.8400	**3,694,613**	826,866
May 26, 2001 to April 17, 2011	10.3000	**24,480**	177,320
July 16, 2002 to July 16, 2011	9.1600	**93,080**	282,840
October 15, 2002 to October 15, 2011	8.6400	**–**	172,000
April 11, 2003 to April 11, 2012	7.9150	**–**	145,000
June 19, 2002 to May 21, 2012	10.0900	**–**	179,000
November 13, 2003 to November 12, 2012	6.1500	**140,000**	40,000
July 25, 2004 to July 23, 2013	4.3500	**3,741,670**	8,158,009
September 16, 2004 to September 14, 2013	4.9000	**–**	1,000,000
February 8, 2006 to February 7, 2009	4.4750	**3,988,000**	3,325,000
		18,230,418	17,982,980

(Amount expressed in Hong Kong dollars unless otherwise stated)

32 EQUITY COMPENSATION BENEFITS *(CONTINUED)*

b. Share award schemes of the Company

In 2002, the Company established two employee share incentive award schemes under which awards of shares may be granted to employees of participating subsidiaries. Directors of the Company are not eligible to participate in either scheme. On June 10, 2002, the Company approved the establishment of the Purchase Scheme under which selected employees are awarded shares purchased in the market. On November 12, 2002, the Company approved the establishment of the Subscription Scheme under which selected employees are awarded newly issued shares. The purpose of both the Purchase Scheme and the Subscription Scheme is to recognize the contributions of certain employees of the Group, to retain them for the continued operation and development of the Group, and to attract suitable personnel for the further development of the Group. In 2006, the Purchase Scheme was amended under which directors of any participating company in the Group are also eligible to participate in this scheme. Under both schemes, following the making of an award to an employee, the relevant shares are held on trust for that employee and then vest over a period of time provided that the employee remains an employee of the Group at the relevant time and satisfies any other conditions specified at the time the award is made. The maximum aggregate number of shares that can be awarded under the two schemes is limited to 1% of the issued share capital of the Company (excluding shares that have already been transferred to employees on vesting).

A summary of movements in shares held under the share award schemes during the year is as follows:

	Number of shares	
	2006	2005
Beginning of year	**–**	3,692,400
Purchase from the market by the trustee at average market price of HK$4.81 per share	**5,073,600**	–
Awards of vested shares to employees	**–**	(3,692,400)
Forfeiture of lapsed shares	**1,426,400**	–
End of year	**6,500,000**	–

The fair value of shares awarded under the Purchase Scheme during the year at the measurement date is HK$4.90, which is measured by the quoted market price of the shares at grant date.

c. Shares granted by principal shareholder of the Company

Pursuant to an agreement made between the Chairman and a director in 2003, 2,161,000 shares (2005: 2,161,000 shares) of the Company were transferred by the Chairman personally to that director in July 2006, being the third (last) annual installment of a total of 6,483,000 shares the Chairman agreed to transfer to that director. No new shares were issued by the Company.

The fair value of shares granted by principal shareholder is measured by the quoted market price of the shares at grant date.

32 EQUITY COMPENSATION BENEFITS *(CONTINUED)*

d. Share option schemes of PCPD

PCPD approved and adopted a share option scheme on March 17, 2003 (the "2003 PCPD Scheme"), which was valid for 10 years after the date of adoption. In order to align the terms of the share option scheme of PCPD with those of the Company and in view of the limited number of shares capable of being issued under the 2003 PCPD Scheme relative to the current capital base of PCPD, the shareholders of PCPD approved the termination of the 2003 PCPD Scheme and the adoption of a new share option scheme (the "2005 PCPD Scheme") at PCPD's annual general meeting held on May 13, 2005. The 2005 PCPD Scheme became effective on May 23, 2005 following its approval by the shareholders of the Company. No further share options will be granted under the 2003 PCPD Scheme following its termination, but the provisions of such scheme will remain in full force and effect with respect to the options granted prior to its termination.

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

No share options have been granted under the 2005 PCPD Scheme during the year ended December 31, 2006 and no share options were outstanding at December 31, 2006 under such scheme.

Details of share options granted by PCPD pursuant to the 2003 PCPD Scheme and the share options outstanding, are as follows:

i. Movements in the number of share options outstanding and their related weighted average exercise prices

	2006		2005	
	Weighted average exercise price HK$	**Number of options**	Weighted average exercise price HK$	Number of options
Beginning and end of year *(note ii)*	**2.375**	**10,000,000**	2.375	10,000,000
Exercisable at end of year	**2.375**	**10,000,000**	2.375	10,000,000

ii. Terms of unexpired and unexercised share options at balance sheet date

Date of grant	Vesting period	Exercise period	Exercise price HK$	Number of options **2006**	Number of options 2005
December 20, 2004	December 20, 2004	December 20, 2004 to December 19, 2014	2.375	**10,000,000**	10,000,000
				10,000,000	10,000,000

The options outstanding at December 31, 2006 had an exercise price of HK$2.375 (2005: HK$2.375) and a weighted average remaining contractual life of 8 years (2005: 9 years).

As the share options were vested before January 1, 2005, there was no expenses recognized in the consolidated income statement.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
December 31, 2006
(Amount expressed in Hong Kong dollars unless otherwise stated)

33 RESERVES/(DEFICIT)

In HK$ million	2006									
	Share premium	Special capital reserve	Treasury stock	Employee share-based compensation reserve	Convertible note and bonds reserve	Currency translation reserve	Hedging reserve	Available-for-sale financial assets reserve	(Deficit)/ Retained profits	Total
THE GROUP										
At January 1, 2006	7,622	22,255	–	223	183	(55)	–	89	(31,388)	(1,071)
Exercise of employee share options	112	–	–	–	–	–	–	–	–	112
Premium arising from exercise of employee share options	57	–	–	(57)	–	–	–	–	–	–
Employee share-based compensation	–	–	–	47	–	–	–	–	–	47
Forfeiture of lapsed shares under share award schemes	–	–	(13)	–	–	–	–	–	–	(13)
Purchase of shares under share award schemes	–	–	(24)	–	–	–	–	–	–	(24)
Translation exchange differences	–	–	–	–	–	142	–	–	–	142
Profit for the year	–	–	–	–	–	–	–	–	1,252	1,252
Dividend paid in respect of the previous year	–	(634)	–	–	–	–	–	–	(174)	(808)
Dividend declared and paid in respect of the current year	–	(367)	–	–	–	–	–	–	(71)	(438)
Available-for-sale financial assets:										
– changes in fair value	–	–	–	–	–	–	–	78	–	78
– transfer to income statement on disposal	–	–	–	–	–	–	–	(88)	–	(88)
Cash flow hedges:										
– effective portion of changes in fair value	–	–	–	–	–	–	(428)	–	–	(428)
– transfer from equity to income statement	–	–	–	–	–	–	(19)	–	–	(19)
At December 31, 2006	7,791	21,254	(37)	213	183	87	(447)	79	(30,381)	(1,258)
THE COMPANY										
At January 1, 2006	7,622	22,255	–	223	–	–	–	–	174	30,274
Exercise of employee share options	112	–	–	–	–	–	–	–	–	112
Premium arising from exercise of employee share options	57	–	–	(57)	–	–	–	–	–	–
Employee share-based compensation	–	–	–	40	–	–	–	–	–	40
Profit for the year	–	–	–	–	–	–	–	–	4,292	4,292
Dividend paid in respect of the previous year	–	(634)	–	–	–	–	–	–	(174)	(808)
Dividend declared and paid in respect of the current year	–	(367)	–	–	–	–	–	–	(71)	(438)
At December 31, 2006	7,791	21,254	–	206	–	–	–	–	4,221	33,472

33 RESERVES/(DEFICIT) *(CONTINUED)*

In HK$ million	2005							
	Share premium	Special capital reserve	Employee share-based compensation reserve	Convertible note and bonds reserve	Currency translation reserve	Available-for-sale financial assets reserve	(Deficit)/ Retained profits	Total
THE GROUP								
At January 1, 2005	29	19,980	137	202	(44)	–	(29,645)	(9,341)
Exercise of employee share options	21	–	–	–	–	–	–	21
Premium arising from exercise of employee share options	14	–	(14)	–	–	–	–	–
Employee share-based compensation	–	–	100	–	–	–	–	100
Issue of ordinary shares, net of issuing expenses	7,558	–	–	–	–	–	–	7,558
Transfer to special capital reserve *(note b)*	–	3,010	–	–	–	–	(3,010)	–
Elimination of losses for the period from January 1, 2005 to June 29, 2005 against special capital reserve *(note c)*	–	(496)	–	–	–	–	496	–
Redemption of convertible bonds	–	–	–	(19)	–	–	19	–
Translation exchange differences	–	–	–	–	(11)	–	–	(11)
Profit for the year	–	–	–	–	–	–	1,595	1,595
Dividend paid in respect of the previous year	–	–	–	–	–	–	(645)	(645)
Dividend declared and paid in respect of the current year *(note d)*	–	(239)	–	–	–	–	(198)	(437)
Fair value gains from available-for-sale financial assets	–	–	–	–	–	89	–	89
At December 31, 2005	7,622	22,255	223	183	(55)	89	(31,388)	(1,071)
THE COMPANY								
At January 1, 2005	29	19,980	137	–	–	–	722	20,868
Exercise of employee share options	21	–	–	–	–	–	–	21
Premium arising from exercise of employee share options	14	–	(14)	–	–	–	–	–
Employee share-based compensation	–	–	100	–	–	–	–	100
Issue of ordinary shares, net of issuing expenses	7,558	–	–	–	–	–	–	7,558
Transfer to special capital reserve *(note b)*	–	3,010	–	–	–	–	(3,010)	–
Elimination of losses for the period from January 1, 2005 to June 29, 2005 against special capital reserve *(note c)*	–	(496)	–	–	–	–	496	–
Profit for the year	–	–	–	–	–	–	2,809	2,809
Dividend paid in respect of the previous year	–	–	–	–	–	–	(645)	(645)
Dividend declared and paid in respect of the current year *(note d)*	–	(239)	–	–	–	–	(198)	(437)
At December 31, 2005	7,622	22,255	223	–	–	–	174	30,274

33 RESERVES/(DEFICIT) *(CONTINUED)*

a. Pursuant to a special resolution passed at an extraordinary general meeting of the Company held on May 19, 2004 and the subsequent order of the High Court of Hong Kong (the "High Court") made on August 3, 2004, the entire amount of HK$173,464,615,915 then standing to the credit of the share premium account of the Company was cancelled in accordance with the provisions of the Hong Kong Companies Ordinance (the "Capital Reduction").

Out of the credit arising from the Capital Reduction, HK$152,932,345,321 was applied to eliminate the accumulated losses of the Company as at June 30, 2004. An undertaking was given by the Company in connection with the Capital Reduction. Pursuant to the undertaking, the balance of HK$20,532,270,594 of the credit arising from the Capital Reduction and any sum received by the Company in respect of its investments against which provision for impairment loss or diminution in value had been made up to June 30, 2004 (or, in the case of a revaluation or disposal of any of such investment, sums revalued or realized in excess of the written down value of the relevant investment as at June 30, 2004) up to an aggregate amount of HK$152,932,345,321 shall be credited to a special capital reserve in the accounting records of the Company. While any debt or liability of, or claim against, the Company at the date of the Capital Reduction remains outstanding and the person entitled to the benefit thereof has not agreed otherwise, the special capital reserve shall not be treated as realized profit and (for so long as the Company remains a listed company) shall be treated as an undistributable reserve for the purposes of section 79C of the Hong Kong Companies Ordinance. The undertaking, however, is subject to the following provisos:–

i. the amount standing to the credit of the special capital reserve may be applied for the same purposes as a share premium account may be applied or may be reduced or extinguished by the aggregate of any increase in the Company's issued share capital or share premium account resulting from an issue of shares for cash or other new consideration or upon a capitalization of distributable reserves after the date of the Capital Reduction;

ii. an amount of up to HK$20,532,270,594 of the special capital reserve may be applied by the Company for the purposes of eliminating any loss sustained after June 30, 2004, provided that if subsequent to the elimination any of the Company's investments against which provision for impairment loss or diminution in value has been made for the period respecting the loss shall be revalued in excess of their written down value at the end of that period or realized for a sum in excess of such written down value, or any sum is received by the Company in respect of such investment, then a sum equal to the amount of the revaluation or the sum realized in excess of the written down value or the sum received by the Company in respect of such investment as aforesaid up to an aggregate amount of HK$20,532,270,594 or the total amount of the non-permanent losses sought to be eliminated (whichever is less) shall be re-credited to the special capital reserve; and

iii. upon the coming into force of one or more guarantees to be issued by Standard Chartered Bank (HK) Limited ("SCB") in the form scheduled to the undertaking, the Company will be released from the undertaking to the extent of an amount equal to the sum so guaranteed less the fees and expenses incurred in issuing the relevant guarantee(s), with the result that such amount of the special capital reserve would thereby become distributable.

On January 10, 2006, the High Court made an order permitting the release of the Company from its undertakings given to the High Court in connection with the Capital Reduction.

The order of the High Court permits the undertakings to be released subject to the Company setting aside sums totalling approximately US$544 million (approximately HK$4,243 million) and HK$106 million for the sole purpose of discharging certain debts or liabilities of the Company existing at the date of the Capital Reduction, principally being the aggregate amount of principal, accrued interest and redemption premium payable on maturity of the US$450 million 1% guaranteed convertible bonds due 2007 issued by PCCW Capital No. 2 Limited. Those amounts were set aside, and the release of the undertakings thereby became effective, on March 27, 2006. As at December 31, 2006, the total cash set aside was approximately HK$4,301 million and has been recorded under "Restricted cash" in the balance sheet of the Company (see note 26(b)).

Following the release of the undertakings, the Company and the special capital reserve ceased to be subject to those restrictions and the Company is no longer be required to record a summary of the undertakings in its audited or interim financial statements.

b. In 2005, dividend income of HK$3,011,014,502 from an indirect wholly-owned subsidiary of the Company was received. In accordance with the undertaking given by the Company to the High Court, as summarized in note (a) above, the Company is required to transfer such amount to the special capital reserve.

c. Pursuant to resolutions of the Board of the Company passed on June 29, 2005, losses for the period from January 1, 2005 to June 29, 2005 in the amount of HK$496,480,940 was eliminated against the special capital reserve by the Company.

d. On October 4, 2005, an interim dividend for the year ended December 31, 2005 of HK$436,942,407 was paid. Pursuant to that part of the undertaking set out in note (a)(iii) above, as a result of the issue of guarantee by SCB on September 30, 2005 and after deduction of the fees and expenses amounting to HK$19,372,284, a sum of HK$239,142,407 was transferred from the special capital reserve for the payment of the dividend and the balance of HK$197,800,000 was paid out of the retained profit of the Company.

34 DEFERRED TAXATION

a. Movement in deferred tax liabilities/(assets) during the year is as follows:

In HK$ million	2006							
	Accelerated tax depreciation	**Valuation adjustment resulting from acquisition of subsidiaries**	**Leasing partnership**	**Revaluation of properties**	**Deferred installation revenue**	**Tax losses**	**Others**	**Total**
THE GROUP								
Beginning of year	**1,634**	**394**	**224**	**144**	**(166)**	**(11)**	**(42)**	**2,177**
Charged/(Credited) to consolidated income statement *(note 12(a))*	**3**	**(28)**	**(51)**	**(3)**	**36**	**(159)**	**18**	**(184)**
Exchange differences	**7**	**–**	**–**	**5**	**–**	**–**	**–**	**12**
End of year	**1,644**	**366**	**173**	**146**	**(130)**	**(170)**	**(24)**	**2,005**

In HK$ million	2005								
	Accelerated tax depreciation	Valuation adjustment resulting from acquisition of subsidiaries	Leasing partnership	Revaluation of properties	Deferred installation revenue	Derivative financial instruments	Tax losses	Others	Total
THE GROUP									
Beginning of year	1,554	460	317	237	(213)	(53)	–	(81)	2,221
Charged/(Credited) to consolidated income statement *(note 12(a))*	118	(66)	(93)	(171)	47	53	(11)	39	(84)
Reclassification of deferred tax assets previously provided	(41)	–	–	75	–	–	–	–	34
Exchange differences	3	–	–	3	–	–	–	–	6
End of year	1,634	394	224	144	(166)	–	(11)	(42)	2,177

In HK$ million	The Group	
	2006	2005
Net deferred tax assets recognized in the consolidated balance sheet	**(174)**	(4)
Net deferred tax liabilities recognized in the consolidated balance sheet	**2,179**	2,181
	2,005	2,177

b. During the year, deferred tax assets of HK$170 million (2005: HK$11 million) have been recognized for tax loss carry-forwards to the extent that realization of the related tax benefit through utilization against future taxable profits is probable, by considering the future taxable income and ongoing prudent and feasible tax planning strategies. The Group has unutilized estimated tax losses for which no deferred tax assets have been recognized of HK$21,885 million (2005: HK$19,376 million) to carry forward for deduction against future taxable income. Estimated tax losses of HK$1,078 million (2005: HK$179 million) and HK$496 million (2005: HK$214 million) will expire within 1-5 years and after 5 years from December 31, 2006 respectively. The remaining portion of the tax losses, mainly relating to Hong Kong companies, can be carried forward indefinitely.

35 MOBILE CARRIER LICENCE FEE LIABILITIES

As at December 31, 2006, the Group had mobile carrier licence fee liabilities repayable as follows:

In HK$ million	The Group					
	2006			2005		
	Present value of the minimum annual fees	**Interest expense relating to future periods**	**Total minimum annual fees**	Present value of the minimum annual fees	Interest expense relating to future periods	Total minimum annual fees
Repayable within a period						
– not exceeding one year	**58**	**7**	**65**	–	–	–
– over one year, but not exceeding two years	**60**	**14**	**74**	49	11	60
– over two years, but not exceeding five years	**186**	**91**	**277**	161	80	241
– over five years	**293**	**362**	**655**	321	435	756
	597	**474**	**1,071**	531	526	1,057
Less: Amounts repayable within one year included under current liabilities	**(58)**	**(7)**	**(65)**	–	–	–
	539	**467**	**1,006**	531	526	1,057

36 NET LEASE PAYMENTS RECEIVABLE

A company within the Group is a limited partner in a number of limited partnerships, which own and lease assets to third parties.

In HK$ million	The Group	
	2006	2005
The net investment in relation to these finance leases comprises:		
Net lease payments receivable	**203**	264
Less: Current portion of net lease payments receivable (included in "Prepayments, deposits and other current assets" in the consolidated balance sheet)	**–**	(61)
	203	203

Non-recourse finance of HK$691 million (2005: HK$876 million) has been offset against net rentals receivable in arriving at the above net investment in finance leases.

37 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

a. Reconciliation of profit before taxation to net cash generated from operating activities

In HK$ million	The Group	
	2006	2005
Profit before taxation	**2,552**	2,970
Adjustment for:		
Impairment losses on interests in jointly controlled companies and associates	**–**	4
Employee share-based compensation	**47**	100
Forfeiture of lapsed shares under share award schemes	**(13)**	–
Provision for inventory obsolescence	**5**	17
Interest income	**(732)**	(533)
Interest expense	**1,898**	2,048
Finance charges	**110**	186
Depreciation of property, plant and equipment	**2,776**	2,543
Net unrealized gains on financial assets at fair value through profit or loss	**–**	(73)
Realized losses on disposal of interests in associates	**–**	4
Realized gains on disposal of financial assets at fair value through profit or loss	**(16)**	(8)
Realized gains from termination of equity swap contracts	**(1)**	–
Realized gains on disposal of available-for-sale financial assets	**(88)**	(90)
Gain on disposal of interests in subsidiaries, net of expenses	**–**	(170)
Net realized and unrealized fair value losses/(gains) on derivative financial instruments	**110**	(319)
Fair value gains on investment properties	**(1)**	(2)
Provision for impairment of investments	**40**	18
Losses on property, plant and equipment	**11**	50
Provision for impairment of other non-current assets	**–**	2
Provision for rental guarantee	**–**	41
Loss/(Gain) on disposal of property, plant and equipment, investment properties and interests in leasehold land	**25**	(24)
Impairment loss for doubtful debts	**106**	137
Dividend income	**(6)**	(10)
Write back of provision for loss on legal claims	**(105)**	–
Amortization of intangible assets	**232**	135
Amortization of land lease premium	**28**	16
Amortization of up-front installation fees	**(222)**	(243)
Impairment loss on investment in unconsolidated subsidiaries held for sale	**25**	6
Share of results of jointly controlled companies and associates	**(37)**	(121)
Exchange losses/(gains)	**47**	(195)
OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL	**6,791**	6,489
Decrease/(Increase) in operating assets		
– interest in leasehold land for development	**(260)**	–
– properties under development and for sale	**4,044**	(836)
– inventories	**(15)**	(77)
– accounts receivable, net	**(678)**	(477)
– prepayments, deposits and other current assets	**12**	111
– sales proceeds held in stakeholders' accounts	**821**	125
– restricted cash	**765**	(687)
– amounts due from related companies	**90**	(56)
– amounts due from jointly controlled companies and associates	**–**	(8)
– other non-current assets	**(209)**	22
Increase/(Decrease) in operating liabilities		
– accruals, accounts payable, provisions, other payables and deferred income	**(3,201)**	121
– gross amount due to customers for contract work	**(4)**	6
– amounts due to related companies	**(267)**	(150)
– other long-term liabilities	**(19)**	(20)
– advances from customers	**(832)**	940
CASH GENERATED FROM OPERATIONS	**7,038**	5,503
Interest received	**713**	543
Tax paid		
– Hong Kong profits tax paid	**(1,217)**	(1,404)
– overseas tax paid	**(12)**	(3)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**6,522**	4,639

37 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(CONTINUED)*

b. Acquisition of subsidiaries

In HK$ million	The Group	
	2006	2005
Net assets acquired:		
Property, plant and equipment	–	1,276
Intangible assets	–	183
Inventories	–	13
Trade receivables, deposits, prepayments and other receivables	–	200
Restricted cash, cash and cash equivalents	–	113
Trade payables, other payables and accrued charges	–	(379)
Long-term loans	–	(850)
3G licence fee liability	–	(529)
Minority interests	–	(11)
	–	16
Goodwill on acquisition	–	1,148
	–	1,164
Satisfied by:		
Cash from internal resources	–	1,164
Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries:		
Cash	–	(1,164)
Cash and cash equivalents acquired	–	112
Net cash outflow in respect of acquisition of subsidiaries	–	(1,052)

c. Disposal of subsidiaries

In HK$ million	The Group	
	2006	2005
Net assets disposed of:		
Property, plant and equipment	–	1
Inventories	–	9
Accounts receivables, prepayments, deposits and other assets	–	4
Cash and bank balances	–	277
Accounts payables, accruals and other payables	–	(15)
Minority interests	–	(58)
	–	218
Gain on disposal of subsidiaries	–	170
	–	388
Satisfied by:		
Cash	–	388
Analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:		
Cash	–	388
Cash and bank balances disposed of	–	(277)
Net cash inflow in respect of disposal of subsidiaries	–	111

37 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(CONTINUED)*

d. Analysis of cash and cash equivalents

In HK$ million	The Group		The Company	
	2006	2005	**2006**	2005
Cash and bank balances	**10,100**	11,317	**4,520**	4,980
Bank loans and overdrafts	**(21)**	(46)	**–**	–
Restricted cash	**(5,128)**	(1,592)	**(4,301)**	–
Cash and cash equivalents as at December 31	**4,951**	9,679	**219**	4,980

The carrying amounts of cash and cash equivalents in the balance sheets are denominated in the following currencies:

In HK$ million	The Group		The Company	
	2006	2005	**2006**	2005
Hong Kong Dollars	**3,549**	3,938	**41**	126
United States Dollars	**1,156**	5,531	**151**	4,854
Chinese Renminbi	**134**	200	**–**	–
Macau Pataca	**75**	–	**–**	–
Sterling Pound	**37**	10	**27**	–
	4,951	9,679	**219**	4,980

e. Major non-cash transaction

In 2005, the Group acquired an IRU from the Reach Group which was settled in part by way of set-off against the shareholder loan owed by the Reach Group of approximately US$155 million plus interest of US$2 million.

38 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, and market (including foreign currency and interest rate) risks arises in the normal course of the Group's business. Exposures to these risks are controlled by the Group's financial management policies and practices described below.

a. Credit risk

The Group's credit risk is primarily attributable to trade and other receivables, investments, over-the-counter derivative transactions and cash transactions entered into for risk management purposes. Management has policies in place and exposures to these credit risks are monitored on an ongoing basis.

The normal credit period granted by the Group ranges up to 30 days from the date of invoice unless there is a separate mutual agreement on extension of the credit period. In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. Debtors who have overdue payable are requested to settle all outstanding balances before any further credit is granted.

Investments, derivative and cash transactions are executed with counterparties with sound credit ratings. Given their high credit ratings, the Group does not expect any investment counterparty to fail to meet its obligations. Moreover, credit limits were set for individual counterparties and periodic reviews were conducted to ensure that the limits are strictly followed.

The Group does not have a significant exposure to any individual debtors or counterparties.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet. Except for the guarantees given by the Group as disclosed in note 40, the Group does not provide any other guarantees which would expose the Group to credit risk.

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. Management believes there is no liquidity risk as the Group has sufficient committed facilities to fund its operations and debt servicing requirements.

c. Market risk

Market risk composed of foreign currency and interest rate exposure deriving from the Group's operation and funding activities. As a matter of policy, the Group enters into currency forwards, interest rate and currency swaps, forward rate agreements, options and other financial instruments to manage its exposure and reduce the market risk that is directly related to the Group's operations and financing. The Group does not undertake any speculative trading activities in connection with these financial instruments or enter into or acquire market risk sensitive instruments for trading purposes.

The Finance and Management Committee, a subcommittee of the Executive Committee of the Board, determines the appropriate risk management activities with the aim of prudently managing the market risk associated with transactions entered into in the normal course of the business.

All treasury risk management activities are carried out in accordance with policies and guidelines approved by the Finance and Management Committee and the Executive Committee, which are reviewed on a regular basis. Early termination and amendments to the terms of the transaction would typically occur when there are changes in the underlying assets or liabilities or in the risk management strategy of the Group.

In the normal course of business, the Group uses the above-mentioned financial instruments to limit its exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions, and all contracts are denominated in currencies of major industrial countries.

As at December 31, 2006, all of the Group's foreign currency denominated long-term liabilities are swapped into Hong Kong dollar by cross currency swaps. In terms of interest rate exposure, most of the long-term liabilities are in fixed rate basis and will not be affected by future Hong Kong dollar interest rate fluctuations.

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

d. Effective interest rates

The following table summarizes the carrying amounts, maturity and contract terms of income-earning financial assets and interest-bearing financial liabilities at the balance sheet date.

In HK$ million, except for %	The Group					
	2006			2005		
	1 year or less	**1-5 years**	**Total**	1 year or less	1-5 years	Total
Assets						
Cash and cash equivalents						
Fixed rate, HK$	**3,549**	**–**	**3,549**	3,938	–	3,938
Average interest rate (%)	***3.77%***		***3.77%***	*3.70%*		*3.70%*
Fixed rate, US$	**1,156**	**–**	**1,156**	5,531	–	5,531
Average interest rate (%)	***4.68%***		***4.68%***	*4.25%*		*4.25%*
Fixed rate, RMB	**134**	**–**	**134**	200	–	200
Average interest rate (%)	***0.92%***		***0.92%***	*1.18%*		*1.18%*
Fixed rate, GBP	**37**	**–**	**37**	10	–	10
Average interest rate (%)	***5.06%***		***5.06%***	*4.47%*		*4.47%*
Fixed rate, MOP	**75**	**–**	**75**	–	–	–
Average interest rate (%)	***2.25%***		***2.25%***			
	4,951	**–**	**4,951**	9,679	–	9,679
Derivative financial instruments						
Cross currency swaps						
– not qualified as hedges						
Receive fixed US$, pay fixed HK$						
Carrying amounts	**–**	**–**	**–**	–	42	42
Notional amounts	**–**	**–**	**–**	–	11,357	11,357
Average receive rate (%)					*6.33%*	*6.33%*
Average pay rate (%)					*6.05%*	*6.05%*
Carrying amounts	**–**	**–**	**–**	–	42	42
Notional amounts	**–**	**–**	**–**	–	11,357	11,357

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
December 31, 2006
(Amount expressed in Hong Kong dollars unless otherwise stated)

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

d. Effective interest rates *(continued)*

In HK$ million, except for %	The Group							
	2006				2005			
	1 year or less	**1-5 years**	**Over 5 years**	**Total**	1 year or less	1-5 years	Over 5 years	Total
Liabilities								
Short-term borrowings								
Floating rate, HK$	**(6,300)**	**–**	**–**	**(6,300)**	(6,500)	–	–	(6,500)
Average interest rate (%)	***4.36%***			***4.36%***	*4.38%*			*4.38%*
Fixed rate, US$	**(7,684)**	**–**	**–**	**(7,684)**	–	–	–	–
Average interest rate (%)	***6.48%***			***6.48%***				
Fixed rate, RMB	**(11)**	**–**	**–**	**(11)**	–	–	–	–
Average interest rate (%)	***5.58%***			***5.58%***				
	(13,995)	**–**	**–**	**(13,995)**	(6,500)	–	–	(6,500)
Long-term liabilities								
Fixed rate, US$	**–**	**(7,731)**	**(7,707)**	**(15,438)**	–	(3,972)	(18,885)	(22,857)
Average interest rate (%)		***8.00%***	***5.63%***	***6.81%***		*5.30%*	*7.01%*	*6.72%*
	–	**(7,731)**	**(7,707)**	**(15,438)**	–	(3,972)	(18,885)	(22,857)
Derivative financial instruments								
Cross currency swaps								
– cash flow hedges								
Receive fixed US$, pay fixed HK$								
Carrying amounts	**–**	**(226)**	**(244)**	**(470)**	–	–	–	–
Notional amounts	**–**	**7,780**	**7,782**	**15,562**	–	–	–	–
Average receive rate (%)		***8.00%***	***5.63%***	***6.81%***				
Average pay rate (%)		***7.60%***	***5.35%***	***6.47%***				
– not qualified as hedges								
Receive fixed US$, pay fixed HK$								
Carrying amounts	**(6)**	**–**	**(79)**	**(85)**	–	(15)	(47)	(62)
Notional amounts	**3,506**	**–**	**3,548**	**7,054**	–	3,510	3,900	7,410
Average receive rate (%)	***1.00%***		***7.88%***	***4.46%***		*1.00%*	*8.00%*	*4.68%*
Average pay rate (%)	***0.59%***		***7.61%***	***4.12%***		*0.59%*	*7.70%*	*4.33%*
Carrying amounts	**(6)**	**(226)**	**(323)**	**(555)**	–	(15)	(47)	(62)
Notional amounts	**3,506**	**7,780**	**11,330**	**22,616**	–	3,510	3,900	7,410

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

d. Effective interest rates *(continued)*

In HK$ million, except for %	The Company					
	2006			2005		
	1 year or less	**1-5 years**	**Total**	1 year or less	1-5 years	Total
Assets						
Cash and cash equivalents						
Fixed rate, HK$	**41**	**–**	**41**	126	–	126
Average interest rate (%)	***3.41%***		***3.41%***	*3.65%*		*3.65%*
Fixed rate, US$	**151**	**–**	**151**	4,854	–	4,854
Average interest rate (%)	***4.73%***		***4.73%***	*4.23%*		*4.23%*
Fixed rate, GBP	**27**	**–**	**27**	–	–	–
Average interest rate (%)	***4.81%***		***4.81%***			
	219	**–**	**219**	4,980	–	4,980
Liabilities						
Short-term borrowings						
Floating rate, HK$	**(6,300)**	**–**	**(6,300)**	–	–	–
Average interest rate (%)	***4.36%***		***4.36%***			
	(6,300)	**–**	**(6,300)**	–	–	–
Derivative financial instruments						
Cross currency swaps						
– not qualified as hedges						
Receive fixed US$, pay fixed HK$						
Carrying amounts	**(6)**	**–**	**(6)**	–	(15)	(15)
Notional amounts	**3,506**	**–**	**3,506**	–	3,510	3,510
Average receive rate (%)	***1.00%***		***1.00%***		*1.00%*	*1.00%*
Average pay rate (%)	***0.59%***		***0.59%***		*0.59%*	*0.59%*
Carrying amounts	**(6)**	**–**	**(6)**	–	(15)	(15)
Notional amounts	**3,506**	**–**	**3,506**	–	3,510	3,510

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

e. Fair values

All financial instruments are carried at amounts not materially different from their fair values as at December 31, 2006 and 2005 except as follows:

In HK$ million	Note	**2006** Carrying amount	**2006** Fair value	2005 Carrying amount	2005 Fair value
THE GROUP					
Held-to-maturity investments	i	**12**	**N/A**	18	N/A
Derivative financial instruments					
– current assets					
Cross currency swaps		**–**	**–**	42	42
Equity swap and equity option		**–**	**–**	60	60
Short-term borrowings		**(13,995)**	**(14,057)**	(6,500)	(6,500)
Derivative financial instruments					
– current liabilities					
Cross currency swaps		**(555)**	**(555)**	(62)	(62)
Long-term borrowings		**(15,438)**	**(16,194)**	(18,885)	(20,084)
Convertible note and bonds		**–**	**–**	(3,972)	(3,954)
THE COMPANY					
Short-term borrowings		**(6,300)**	**(6,300)**	–	–
Derivative financial instruments					
– current liabilities					
Cross currency swaps		**(6)**	**(6)**	(15)	(15)

i. Due to the nature of held-to-maturity investments, it is not practicable to estimate their fair value as such exercise would require excessive cost.

f. Estimation of fair values

Fair value of financial instruments is estimated as follows:

i. The fair value of financial instruments traded in active markets (such as trading and available-for-sale financial assets, and listed long-term borrowings and convertible note and bonds) is based on quoted market prices at the balance sheet date.

ii. The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine the fair value for the remaining financial instruments. The fair value of cross currency swaps is calculated as the present value of the estimated future cash flows.

iii. The nominal value less impairment provision of trade receivables and payables, amounts due from/to related companies that are classified as current assets/liabilities are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

39 COMMITMENTS

a. Capital

In HK$ million	The Group	
	2006	2005
Authorized and contracted for	**2,931**	2,920
Authorized but not contracted for	**1,968**	2,270
	4,899	5,190

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

In HK$ million	The Group	
	2006	2005
Investments	**861**	202
Investment properties	**37**	–
Property development for Cyberport project *(note i)*	**2,148**	2,694
Property development for other projects	**171**	141
Acquisition of property, plant and equipment	**1,675**	2,151
Others	**7**	2
	4,899	5,190

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

b. Operating leases

As at December 31, 2006, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

Land and buildings

In HK$ million	The Group	
	2006	2005
Within 1 year	**427**	339
After 1 year but within 5 years	**477**	368
After 5 years	**56**	82
	960	789

Network capacity and equipment

In HK$ million	The Group	
	2006	2005
Within 1 year	**59**	179
After 1 year but within 5 years	**19**	41
After 5 years	**1**	1
	79	221

39 COMMITMENTS *(CONTINUED)*

c. Others

As set out in note 4(c), on June 17, 2004, the Company agreed to provide REACH with a revolving working capital loan facility up to US$25 million (approximately HK$195 million). The facility is secured and will be repayable in full by REACH on December 31, 2007. The interest receivable under this facility is LIBOR plus 250 basis points. As at December 31, 2006, none of this working capital loan facility has been drawn down by REACH.

As at December 31, 2006, the Group has other outstanding commitment as follows:

In HK$ million	The Group	
	2006	2005
Purchase of rights to broadcast certain TV content	**1,032**	811
Purchase commitment on telecommunications services	**205**	300
Operating expenditure commitment	**335**	378
	1,572	1,489

40 CONTINGENT LIABILITIES

In HK$ million	The Group		The Company	
	2006	2005	**2006**	2005
Performance guarantee	**611**	403	**417**	311
Tender guarantee	**–**	2	**–**	–
Advance payment guarantee	**9**	10	**–**	10
Guarantees given for bonds/notes issued by subsidiaries	**–**	–	**4,182**	4,034
Guarantee in lieu of cash deposit	**3**	5	**2**	2
Employee compensation	**6**	6	**6**	6
Guarantee indemnity	**11**	11	**–**	–
	640	437	**4,607**	4,363

a. As disclosed in the Group's annual financial statements for the year ended December 31, 2005, on April 23, 2002, a writ of summons was issued against PCCW-HKT Limited ("HKT"), an indirect wholly-owned subsidiary of the Company, by New Century Infocomm Tech Co., Ltd. ("NCIC") for HKT's alleged failure to purchase 6,522,000 shares of TTNS, an indirect subsidiary of the Company, pursuant to an option agreement entered into on July 24, 2000.

During the year, the Group decided to raise its stake in TTNS. The Group negotiated with NCIC to acquire 6,522,000 shares of TTNS and completed the acquisition in July 2006. Following the purchase, the Group's effective interest in TTNS was increased to 62.56% from 56.56%.

In July 2006, HKT and NCIC filed a consent summons with the High Court permanently staying the court action as mentioned above which has effectively terminated these legal proceedings.

b. HKTC is in dispute with the IRD regarding the deductibility of certain finance expenses. The IRD had raised assessments for part of the disputed finance expenses for the years of assessment 2000/01 to 2005/06 on April 21, 2005, February 3, 2006 and February 5, 2007. HKTC had lodged objections to the assessments and requested for holding over of the tax assessed through the purchase of Tax Reserve Certificates. Based on the information available to the Group to date, HKTC has made a provision based on the best estimate of the amount that may ultimately be required to settle the dispute. The unprovided tax expense as at December 31, 2006 in respect of the subject dispute is approximately HK$192 million. The directors consider that the impact of any unprovided amounts which may materialize is immaterial.

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

41 BANKING FACILITIES

Aggregate banking facilities as at December 31, 2006 were HK$16,698 million (2005: HK$11,579 million) of which the unused facilities amounted to HK$10,387 million (2005: HK$5,079 million).

A summary of major borrowings is set out in notes in 26(g) and 27(a).

Security pledged for certain banking facilities includes:

In HK$ million	The Group	
	2006	2005
Land and buildings	**31**	31
Bank deposit	**67**	10
Available-for-sale financial assets	**21**	21
	119	62

As at December 31, 2006, an indirect subsidiary of the Company had been granted a banking facility amounting to approximately HK$20 million (2005: HK$20 million) from a bank for the purpose of providing guarantee to the Government. Such facility was secured by a bank deposit placed by that indirect subsidiary of the Company from time to time to secure the amount of guarantee issued by the bank. No guarantee was issued by the bank under this banking facility as at December 31, 2006 (2005: Nil).

In addition, the bank guarantee issued in favour of the Company in connection with the undertakings as set out in note 33(a)(iii) was secured by a bank deposit placed by another indirect wholly-owned subsidiary of the Company amounting to approximately HK$259 million as at December 31, 2005, which was included in "Restricted cash" in the consolidated balance sheet (see note 26(b)). In April 2006, the restricted cash balance was released following the release of the undertakings effective on March 27, 2006.

As at December 31, 2005, a bank guarantee was issued to another indirect subsidiary of the Company in respect of the use of facilities at the Hong Kong International Airport for the provision of mobile services. Such bank guarantee was pledged against a bank deposit placed by the indirect subsidiary of the Company amounting to approximately HK$1 million, which was included in "Restricted cash" in the consolidated balance sheet (see note 26(b)).

42 BUSINESS COMBINATIONS

On June 22, 2005, the Group, through PCCW Mobile, acquired approximately 59.87% of the issued share capital of SUNDAY for a total cash consideration of HK$1,163,587,100. The SUNDAY Group is a developer and provider of wireless communications and data services in Hong Kong, and a 3G licence holder. The acquired business contributed revenue of HK$598 million and loss before taxation of HK$136 million to the Group for the period from June 22, 2005 to December 31, 2005. If the acquisition had occurred on January 1, 2005, the estimated consolidated revenue for the Group would have been HK$23,057 million, and profit before taxation would have been HK$2,905 million.

Details of net assets acquired and goodwill are as follows:

In HK$ million	2005
Purchase consideration:	
Cash paid	1,164
Less: Fair value of net assets acquired	(16)
Goodwill on acquisition	1,148

The goodwill is attributable to the cost of entry into wireless communications market in Hong Kong, control premium of SUNDAY and the significant synergies expected to arise after the Group's acquisition of SUNDAY.

42 BUSINESS COMBINATIONS *(CONTINUED)*

Acquiree's net assets at the acquisition date are as follows:

In HK$ million	Fair value	Carrying amounts
Property, plant and equipment	1,276	1,282
3G licence	101	812
Customer base	65	–
Trademark	10	–
Other intangible assets	7	7
Inventories	13	13
Trade receivables, deposits, prepayments and other receivables	200	199
Restricted cash, cash and cash equivalents	113	113
Trade payables, other payables and accrued charges	(379)	(370)
Long-term loans	(850)	(850)
3G licence fee liability	(529)	(557)
Net assets	27	649
Minority interests (40.13%)	(11)	
Net assets acquired	16	

In HK$ million	2005
Purchase consideration settled in cash	1,164
Cash and cash equivalents acquired	(112)
Cash outflow on acquisition *(note 37(b))*	1,052

43 POST BALANCE SHEET EVENTS

The following events occurred subsequent to December 31, 2006 up to the date of approval of these financial statements by the Board:

a. Following completion of the acquisition of 50% of the registered capital of CNCBB, details of which are set out in note 1(a), PCCW Teleservices became a shareholder of CNCBB on January 11, 2007.

b. On January 24, 2007, US$456 million 7.88% guaranteed notes due 2013 issued by PCCW Capital No. 3 Limited were fully redeemed.

c. On January 29, 2007, US$450 million 1% guaranteed convertible bonds due 2007 issued by PCCW Capital No. 2 Limited were fully redeemed in cash upon its scheduled maturity, which was equivalent to 119.383% of the principal amount, plus accrued interest as at January 29, 2007, and not by conversion into ordinary shares of the Company.

44 COMPARATIVE FIGURES

Certain comparative figures have been adjusted or re-classified as a result of the reclassification of certain operations among business segments, details of which are set out in note 6.

45 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2006

Up to the date of approval of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ended December 31, 2006 and which have not been adopted in these financial statements:

		Effective for accounting periods beginning on or after
HKFRS 7	Financial Instruments: Disclosures	January 1, 2007
Amendment to HKAS 1	Presentation of Financial Statements – Capital Disclosures	January 1, 2007
HK(IFRIC)-Int 8	Scope of HKFRS 2	May 1, 2006
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives	June 1, 2006
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment	November 1, 2006
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions	March 1, 2007
HK(IFRIC)-Int 12	Service Concession Arrangements	January 1, 2008
HKFRS 8	Operating Segments	January 1, 2008

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations would be in the period of initial application, but not yet in a position to state whether these amendments, new standards and new interpretations would have a significant impact on the Group's results of operations and financial position.