



Interim Report 2008 | Stock Code: 0008



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CORPORATE PROFILE

PCCW Limited (PCCW or the Company) is the premier telecommunications provider in Hong Kong and a world-class player in Information & Communications Technologies.

As the provider of Hong Kong's first quadruple-play experience, PCCW offers a range of innovative media content and services across four platforms – fixed-line, broadband Internet, TV and mobile.

In addition, the Company meets the sophisticated needs of the international business community, while supporting network operators with cutting-edge technical services and handling large-scale IT outsourcing projects for public and private sector organizations.

Employing approximately 16,200 staff, PCCW is headquartered in Hong Kong and maintains a presence in Europe, the Middle East, Africa, the Americas and mainland China, as well as other parts of Asia.

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

KEY FIGURES

FINANCIAL HIGHLIGHTS

For the six months ended June 30, 2008
In HK\$ million (except for per share data)

	2008 (Unaudited)	2007 (Unaudited)
Turnover		
Core revenue*	10,754	9,507
PCPD	618	2,100
	11,372	11,607
Cost of sales	(4,942)	(5,199)
General and administrative expenses	(4,744)	(4,398)
Other gains, net	16	55
Losses on property, plant and equipment	–	(2)
Finance costs, net	(590)	(610)
Share of results of associates and jointly controlled companies	(7)	(1)
Profit before income tax	1,105	1,452
Income tax	(417)	(377)
Profit for the period	688	1,075
Attributable to:		
Equity holders of the Company	656	822
Minority interests	32	253
Earnings per share (in HK cents)		
Basic	9.68	12.16
Diluted	9.67	11.96
Dividend per share (in HK cents)		
Interim dividend declared after the interim period	7.0	6.5
EBITDA ¹		
Core EBITDA*	3,364	3,068
PCPD	72	541
	3,436	3,609

OPERATION HIGHLIGHTS

	As at June 30, 2008	As at December 31, 2007
Exchange lines in service ('000)	2,593	2,590
Business lines ('000)	1,185	1,183
Residential lines ('000)	1,408	1,407
Traditional data (Exit Gbps)	842	723
International Private Leased Circuit bandwidth (Exit Mbps)	61,617	44,144
Total broadband access lines ('000)	1,275	1,237
now TV		
Installed base ('000)	927	882
Paying base ('000)	668	628
Mobile subscribers		
3G post-paid ('000)	288	206
2G post-paid ('000)	459	460
2G prepaid ('000)	429	405

*Note: Please refer to page 6. Note 1: Please refer to page 9.

STATEMENT FROM THE CHAIRMAN

I am pleased to present the Chairman's statement for the first half of 2008, which saw continued growth in performance of the Company's core business.

We pressed ahead with our success in both the consumer and the business markets, despite the slower economic growth in 2008.

Our experience and expertise in innovation, and our quadruple-play strategy on fixed-line, broadband Internet, TV and mobile put us in an enviable position to explore business and investment opportunities in other markets.

Our music and video content continues to strengthen. Our other offerings include more than 4,000 Wi-Fi hotspots throughout Hong Kong, and broadband offerings with speeds of up to 1,000Mbps. PCCW Global has made its first foray into the United Arab Emirates (UAE) by signing a network service agreement with du, the second telecoms services provider in the UAE. Our International Projects business unit has also entered the Middle East market and is part of a consortium that has been awarded a contract to build the second fixed network in Saudi Arabia.

Our core business revenue and EBITDA both registered double-digit growth in the first half. We are optimistic that the Group's full year results would also benefit from our property business as revenue and profit from its pre-sold Bel-Air units would be recognized on completion of those units, which is expected in the second half of the year.

In May 2008, the Company announced a reorganization of the telecoms services, media and IT solutions businesses under a new holding company, HKT Group Holdings Limited (HKT). We have also invited proposals from potential investors for acquiring a minority interest in HKT from the Company. This exercise, unanimously approved by the board of directors, is in progress.

I would like to thank my fellow directors for their contributions to the Company. Mr. Zhang Chunjiang resigned as a Non-Executive Director in May. I welcome Mr. Lu Yimin, who was appointed as a Non-Executive Director with effect from May 30, 2008. Mr. Lu is a member of senior management of China Network Communications Group Corporation.

The Company would not have achieved its solid results had it not been for the efforts of our team of employees. I am confident that they will continue to excel in professionalism and customer service, and uphold PCCW's reputation as the premier telecommunications provider in Hong Kong and a world-class ICT player.



Richard Li
Chairman
August 21, 2008

STATEMENT FROM THE GROUP MANAGING DIRECTOR

The Company forged ahead in the first half of 2008 with continued improvement in products and services. Strong performance of the various core business segments contributed to a solid growth in the operating results for the six months to June 30, 2008.

The quadruple-play capability of PCCW continued to be a unique advantage of the Company in the local consumer market. We have strengthened our leading position by offering more attractive content, versatile applications and value-added services. By introducing faster connection and greater mobility, we are also making it even more convenient for consumers to enjoy our offerings via the four delivery platforms of fixed-line, broadband Internet, TV and mobile.

ATTRACTIVE QUADRUPLE-PLAY OFFERING

We enhanced the usage and infotainment content of the PCCW eye home multimedia device in February. Octopus card transaction records can now be reviewed instantly, while Cantonese operas and children's songs have proved to be popular features.

In addition to expanding the genres in its library, MOOV, PCCW's digital music service, has increased its collection to 130,000 titles from Hong Kong and worldwide. Moreover, MOOV Live, an exclusive concert series featuring Hong Kong's most talented music artists, has quickly acquired an iconic status among trendy and sophisticated fans.

NOW TV has also boosted its channel line-up to more than 160 channels. Viewers may choose from recently launched channels, first-hand financial news from mainland China, classic Asian movies, popular dramas from the west and new infotainment programs.

High-definition programming is expected to become a key ARPU driver. To capitalize on the launch of digital terrestrial television (DTT) in Hong Kong, we also developed an incremental revenue stream by introducing an All-In-One Set-top Box with DTT reception capability.

With stronger content and greater quadruple-play convenience on offer, PCCW's advertising and transactional services were able to address the needs of companies large and small, and recorded an encouraging growth.

HIGHER SPEED AND GREATER MOBILITY

Over PCCW's optical fiber network, NETVIGATOR offers broadband speeds of up to 1,000Mbps to meet increasing demand for higher bandwidth applications. Also, NETVIGATOR offers a one-stop solution for wireless broadband at home and on the go with our NETVIGATOR Home Wireless, PCCW Wi-Fi and NETVIGATOR Everywhere solutions. These propositions continued to differentiate NETVIGATOR from its competitors, and drive new revenue streams and ARPU growth.

Having built more than 4,000 Wi-Fi hotspots throughout Hong Kong, PCCW began in May to provide free wireless broadband service at outdoor and indoor areas of public rental housing estates. PCCW has also been working on the HKSAR Government's Wi-Fi scheme. Phase One of the project was completed in June – more than 130 government sites, including libraries and district offices, are now in service.

PCCW's brand of innovation and expertise was recognized in a Q-Mark award in May for our mobile network services. This was the first such award in the mobile industry of Hong Kong.

SUCCESS IN COMMERCIAL AND INTERNATIONAL MARKETS

The telephony and data needs of the business market continued to be well served by PCCW's experienced commercial team. We won significant deals including a Next Generation Metro-IP network for a local bank with over 250 branches, a fiber transmission network to support the Beijing 2008 Olympic Games event in Hong Kong, and sizable networking infrastructure contracts in Macau and mainland China.

PCCW Solutions was also successful in renewing contracts and winning new clients in infrastructure, applications, and business process outsourcing.

In February, PCCW Global signed a network service agreement to interconnect with du, the second telecoms services provider in the United Arab Emirates. The parties will link their networks to address rising demand for international connectivity in the Middle East, Africa, the Americas, Europe and mainland China, as well as Hong Kong and other parts of Asia.

Our International Projects team puts our home-grown expertise to good use in other markets. We are part of a consortium that has been awarded a contract to build the second fixed network in Saudi Arabia. During the first half of the year, we also secured contracts to design and build network operating centers in two major mainland cities for a leading mobile operator.

In property, pre-sale of luxury boutique apartments ONE Pacific Heights, located to the west of Central, began in June. This project is scheduled for completion in 2009 and we remain upbeat about the outlook for Hong Kong's high-end market. Development plans for luxury resorts in Hokkaido, Japan and Thailand's Phang-nga represent long-term expansion prospects.

In addition to business development, the Company has also expanded its Corporate Social Responsibility initiatives. Our focus is on five areas: corporate community investment, socially responsible practices, caring employer, corporate governance, and caring business partner. We look forward to publishing a detailed report around the time of our annual results announcement.

OUTLOOK

The growth of PCCW's core business provided a favorable backdrop for a reorganization that the Company announced in May. The Company believes the reorganization of its telecoms services, media and IT solutions businesses under a newly-incorporated holding company, HKT Group Holdings Limited (HKT), will improve the operational efficiencies of the Group. The exercise will consolidate all components of the Group's quadruple-play offering under a single holding company with a transparent and easily understood corporate structure which would facilitate a future listing.

Interested parties were invited to submit proposals for the acquisition of up to a 45% equity interest in HKT. This is intended to recognize the increases in the value of the Group's core assets which have been achieved as a result of improving profitability, the creation of new income streams and the many service innovations launched in recent years.

Using our unique quadruple-play advantages to further grow household ARPU is a key strategy of the Company. We will continue to bring more quality content and services to customers both in the home and on the move. PCCW's reputation in telecommunications and IT is well recognized outside Hong Kong and I am confident that this is opening up several significant growth opportunities. The Company has been developing its expertise, services and managerial talent to pursue further growth initiatives in telecoms, media and technology (TMT) as they arise.

The reorganization of our core business under HKT will strengthen our determination to offer reliable, innovative services and premium quality products to our customers. These are the core values and strengths of the Company. The PCCW team will do its utmost to deliver only the best, and for that I take this opportunity to offer my sincere thanks to our 16,200 employees in Hong Kong and other parts of the world.



Alex Arena

Group Managing Director
August 21, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Core revenue increased by 13% to HK\$10,754 million; consolidated revenue including PCPD decreased by 2% to HK\$11,372 million, reflecting lower recognition of property development revenue
- Core EBITDA increased by 10% to HK\$3,364 million; consolidated EBITDA including PCPD decreased by 5% to HK\$3,436 million. Core segment results and consolidated segment results were HK\$1,637 million and HK\$1,702 million respectively
- Mobile achieved a positive EBITDA of HK\$108 million
- NOW TV has become the largest local pay-TV operator with installed base up 13% year-on-year to 927,000
- Profit attributable to equity holders of the Company amounted to HK\$656 million
- Basic earnings per share of 9.68 HK cents
- Declare interim dividend of 7 HK cents per share

MANAGEMENT REVIEW

PCCW's core business delivered double-digit growth in revenue and EBITDA in the first half of 2008. The solid financial performance reflected success in the execution of our growth strategies and focus on operational excellence.

Core revenue grew strongly by 13% year-on-year to HK\$10,754 million for the six months ended June 30, 2008, driven by the revenue growth in all core business segments – 11% in Telecommunications Services ("TSS"), 45% in TV & Content, 28% in Mobile and 9% in PCCW Solutions.

Consolidated revenue including PCPD for the six months ended June 30, 2008 was HK\$11,372 million, which was 2% lower than a year ago, due to lower property development revenue recognized from the Bel-Air project in the period.

Core EBITDA increased by 10% to HK\$3,364 million for the six months ended June 30, 2008, which was primarily attributed to strong revenue growth in all core business segments and significant improvement in TV & Content and Mobile EBITDA. Consolidated EBITDA including PCPD decreased by 5% to HK\$3,436 million.

Profit attributable to equity holders of the Company for the six months ended June 30, 2008 amounted to HK\$656 million and the basic earnings per share was 9.68 HK cents. The board of Directors (the "Board") has resolved to declare an interim dividend of 7 HK cents per share for the six months ended June 30, 2008.

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

OUTLOOK

It is encouraging to note that during the first half of 2008, an increasing number of customers were using more of our unique quadruple-play services via each of the four delivery platforms. We are confident that, subject to the continuing satisfactory performance of the Hong Kong economy, this trend will continue, thereby contributing to a rise in household average revenue per user (“ARPU”), which will drive an increase in core business revenue.

In the consumer market, we will seek to maintain our fixed-line customer base, while introducing more value-added features to the PCCW **eye** home multimedia service. Meanwhile, increasing demand in the commercial sector for higher bandwidth and managed services looks set to further drive growth in broadband, local data and international telecommunications services.

Our broadband service focuses on higher access speeds and versatile wireless solutions. Customers in the home or on the move can enjoy the freedom, seamlessness, stability and ubiquity provided by the combined qualities of our NETVIGATOR Home Wireless, PCCW Wi-Fi and NETVIGATOR Everywhere services.

PCCW mobile’s 3G service has strengthened its market position due to our attention to quality of service, network coverage, hassle-free tariff packages and quadruple-play delivery of our media content. We plan to build our mobile position with yet more value-added services and features.

NOW TV has become the largest local pay-TV operator, offering a vast variety of largely exclusive content and more high-definition (“HD”) channels to appeal to a wider audience. More personalized services, such as network-based video recorder functionality, will be introduced in the second half of this year.

The reorganization of our telecommunications services, media and IT solutions businesses into a newly-incorporated holding company, HKT Group Holdings Limited, is designed to improve operational efficiencies, while the proposed sale of up to 45% equity interest in this company – together with a potential future listing – should help unlock value for our shareholders.

With vision, innovation and an unswerving determination to provide customers with the best possible services, the Group will continue to deliver growth in its businesses both in Hong Kong and overseas.

FINANCIAL REVIEW BY SEGMENTS

For the six months ended HK\$ million	June 30, 2008	June 30, 2007	December 31, 2007	Better/ (Worse) y-o-y
Revenue				
TSS	8,551	7,706	8,930	11%
TV & Content	1,039	715	988	45%
Mobile	857	668	800	28%
PCCW Solutions	900	826	969	9%
Other Businesses	43	165	84	(74)%
Eliminations	(636)	(573)	(697)	(11)%
Core revenue	10,754	9,507	11,074	13%
PCPD	618	2,100	1,034	(71)%
Consolidated Revenue	11,372	11,607	12,108	(2)%
Cost of sales	(4,942)	(5,199)	(5,339)	5%
Operating costs before depreciation, amortization and restructuring costs	(2,994)	(2,799)	(3,082)	(7)%
EBITDA¹				
TSS	3,549	3,431	4,004	3%
TV & Content	(40)	(74)	(83)	46%
Mobile	108	(56)	56	N/A
PCCW Solutions	82	102	48	(20)%
Other Businesses	(335)	(335)	(587)	–
Core EBITDA	3,364	3,068	3,438	10%
PCPD	72	541	249	(87)%
Consolidated EBITDA¹	3,436	3,609	3,687	(5)%
Consolidated EBITDA Margin^{1,3}	30%	31%	30%	(1)%
Depreciation and amortization	(1,750)	(1,610)	(1,660)	(9)%
Gain/(Loss) on disposal of property, plant and equipment	–	11	(4)	N/A
Other gains/(losses), net	16	55	(58)	(71)%
Losses on property, plant and equipment	–	(2)	(5)	N/A
Segment results²				
TSS	2,465	2,392	2,930	3%
TV & Content	(169)	(150)	(247)	(13)%
Mobile	(252)	(361)	(257)	30%
PCCW Solutions	55	73	23	(25)%
Other Businesses	(462)	(422)	(673)	(9)%
Core segment results	1,637	1,532	1,776	7%
PCPD	65	531	184	(88)%
Consolidated segment results²	1,702	2,063	1,960	(17)%

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

Note 2 Segment results represent earnings before interest income, finance costs, income tax, impairment losses on interests in jointly controlled companies and associates and the Group's share of results of jointly controlled companies and associates.

Note 3 Year-on-year percentage change was based on absolute percentage change.

Note 4 Figures are stated as at the period end, except for International Direct Dial ("IDD") minutes which is the total for the period.

Note 5 Gross debt refers to the principal amount of short-term borrowings and long-term borrowings. Net debt refers to the principal amount of short-term borrowings and long-term borrowings minus cash and cash equivalents and certain restricted cash.

Note 6 Group capital expenditure includes additions to property, plant and equipment, investment properties and interests in leasehold land.

OPERATING DRIVERS⁴

	June 30, 2008	June 30, 2007	December 31, 2007	Better/(Worse)	
				y-o-y	h-o-h
Exchange lines in service ('000)	2,593	2,590	2,590	0%	0%
Business lines ('000)	1,185	1,183	1,183	0%	0%
Residential lines ('000)	1,408	1,407	1,407	0%	0%
Total broadband access lines ('000)	1,275	1,176	1,237	8%	3%
(Consumer, business and wholesale customers)					
Retail consumer broadband subscribers ('000)	1,099	1,005	1,060	9%	4%
Retail business broadband subscribers ('000)	110	104	107	6%	3%
Consumer narrowband subscribers ('000)	108	117	111	(8)%	(3)%
Traditional data (Exit Gbps)	842	614	723	37%	16%
Retail IDD minutes ('M mins)	907	944	947	(4)%	(4)%
International Private Leased Circuit ("IPLC") bandwidth (Exit Mbps)	61,617	47,098	44,144	31%	40%
now TV					
Installed base ('000)	927	818	882	13%	5%
Paying base ('000)	668	560	628	19%	6%
Mobile subscribers ('000)	1,176	957	1,071	23%	10%
3G post-paid ('000)	288	119	206	142%	40%
2G post-paid ('000)	459	462	460	(1)%	0%
2G prepaid ('000)	429	376	405	14%	6%

TSS

The table below sets out the financial performance of TSS for the six months ended June 30, 2008 and other relevant periods:

For the six months ended HK\$ million	June 30, 2008	June 30, 2007	December 31, 2007	Better/ (Worse) y-o-y
Local Telephony Services	2,284	2,343	2,391	(3)%
Local Data Services	2,415	2,214	2,443	9%
International Telecommunications Services	1,911	1,591	1,748	20%
Other Services	1,941	1,558	2,348	25%
TSS Revenue	8,551	7,706	8,930	11%
Cost of sales	(2,922)	(2,466)	(3,034)	(18)%
Operating costs before depreciation and amortization	(2,080)	(1,809)	(1,892)	(15)%
TSS EBITDA¹	3,549	3,431	4,004	3%
TSS EBITDA Margin^{1,3}	42%	45%	45%	(3)%

TSS Revenue achieved 11% growth to HK\$8,551 million, marked by significant growth in International Telecommunications Services and Other Telecommunications Services. EBITDA and segment results reported 3% growth to HK\$3,549 million and HK\$2,465 million respectively.

Local Telephony Services. Local telephony services revenue for the six months ended June 30, 2008 edged lower by 3% to HK\$2,284 million partly due to the lower revenue from leasing of "last mile" local access lines by other fixed-line network operators. Total fixed lines in service at the end of June 2008 maintained at approximately 2,593,000 with firm ARPU.

Local Data Services. Local data services revenue for the six months ended June 30, 2008 grew 9% year-on-year to HK\$2,415 million.

Strong growth in broadband network revenue was fuelled by another double-digit rise in consumer and business broadband service revenues. Total broadband access lines in service reached 1,275,000 at the end of June 2008, up by 8% from a year ago. Our unique content provision across the quadruple-play platforms has proved to be a compelling factor for attracting new customers. More subscribers opting for the new higher-speed broadband services, together with growth in wireless data usage via our seamless Wi-Fi/3G/HSPA networks, have led to higher ARPUs in both consumer and business segments.

Commercial demand for high bandwidth connectivity services increased as more high bandwidth applications were deployed, which resulted in higher bandwidth sold by 37% from a year ago and more than offset the impact from price compression.

International Telecommunications Services. International Telecommunications Services revenue for the six months ended June 30, 2008 increased by 20% from a year ago to HK\$1,911 million, led by the growth in wholesale traditional and IP-based international connectivity and voice services. Average retail IDD rates were higher during the period, which offset the impact from the 4% decrease in retail IDD minutes.

Other Services. Other services revenue for the six months ended June 30, 2008 increased by 25% year-on-year to HK\$1,941 million. Strong sales of our computer and customer premise equipment were again attributed to the buoyant commercial and consumer markets.

TV & Content

For the six months ended HK\$ million	June 30, 2008	June 30, 2007	December 31, 2007	Better/ (Worse) y-o-y
TV & Content Revenue	1,039	715	988	45%
TV & Content EBITDA¹	(40)	(74)	(83)	46%

TV & Content maintained growth momentum in the first half of 2008, with revenue surging by 45% from a year ago to HK\$1,039 million. This was driven by higher service subscription revenue from a larger paying base and growing ARPU, and higher TV advertising revenues. EBITDA loss further narrowed by 46% year-on-year to HK\$40 million.

Attracted by the widest selection of content including HD channels and unique interactive features, NOW TV's installed subscriber base climbed higher to 927,000 at the end of June 2008, an increase of 13% from a year earlier. The paying base also recorded an increase of 19% year-on-year to 668,000 at the end of June 2008. As the largest pay-TV service provider in Hong Kong, NOW TV has further boosted its content line-up to more than 160 local and international channels at the end of June 2008, including over 85 exclusive world-class movies, sports, news and general entertainment channels.

ARPU in June 2008 grew by 28% from a year ago to HK\$213. The addition of UEFA EURO 2008 to the Barclays Premier League in our strong line-up of sports programming attracted new customer subscriptions to the Mega Sports Pack. The higher ARPU was also attributed to the growing demand for high value packs, buy-all packages and HD premium channels. The introduction of the All-In-One Set-top Box with HD and digital terrestrial television reception capability also helped develop new incremental revenue streams.

MOOV, PCCW's digital music brand with the largest library in Hong Kong of over 130,000 songs and video titles from more than 90 local and international partners/labels, continued to help drive up the subscribers and ARPU of now.com.hk, our popular broadband portal. This first-in-Hong Kong multi-platform digital music service is also available on PCCW mobile and PCCW eye.

Mobile

For the six months ended HK\$ million	June 30, 2008	June 30, 2007	December 31, 2007	Better/ (Worse) y-o-y
Mobile Revenue	857	668	800	28%
Mobile EBITDA¹	108	(56)	56	N/A

Mobile business continued to experience a robust growth in the first half of 2008, with revenue up 28% year-on-year to HK\$857 million. After achieving EBITDA breakeven in 2007, PCCW mobile earnings continued its upward path and generated a positive EBITDA of HK\$108 million for the six months ended June 30, 2008.

PCCW mobile's total subscribers reached 1,176,000, a 23% growth from a year ago. The 3G subscriber base grew impressively by 142% year-on-year to 288,000, while the total 2G subscriber base increased by 6% year-on-year to 888,000 in the first half of 2008.

PCCW mobile's service, enriched with value added services (e.g. NOW on mobile, NOW SPORTS on mobile, HD on mobile, MOOV, PUSH eMail, Mobile Internet, etc.), continues to be a favorite mobile operator in the market as demonstrated by further customer base growth, a sharp increase in mobile revenue and higher data usage via our wireless networks. As a result, ARPU of our 3G service increased by 3% from December 2007 to HK\$222 in June 2008, and our blended 2G and 3G post-paid ARPU increased by 2% from December 2007 to HK\$156 in June 2008.

In May 2008, PCCW mobile was awarded the Q-Mark Certificate for its Mobile Network Services, the first of its kind in the mobile industry in Hong Kong. This award recognizes PCCW mobile's commitment to provide industry leading network capabilities and world-class customer management service.

PCCW Solutions

For the six months ended HK\$ million	June 30, 2008	June 30, 2007	December 31, 2007	Better/ (Worse) y-o-y
PCCW Solutions Revenue	900	826	969	9%
PCCW Solutions EBITDA¹	82	102	48	(20)%

PCCW Solutions revenue increased by 9% year-on-year to HK\$900 million for the six months ended June 30, 2008. The solid revenue growth was driven by the continued growing demand for IT solution services from both the public and private sectors in Hong Kong and mainland China, and the success in securing contracts from new clients and expanding relationships with existing clients.

The first half of 2008 saw PCCW Solutions continue to strengthen its recurring revenue base and reinforce its leading position in the information technology outsourcing and business process outsourcing businesses in Hong Kong. Recent new business wins included data center hosting services for Rackspace Hosting and Bank SinoPac, application outsourcing services for Philips Lighting and the Hong Kong Examinations and Assessment Authority, and business process outsourcing service for the Rating and Valuation Department.

PCCW Solutions also benefited from a growing revenue contribution from projects with mainland Chinese telecommunications companies. Building on its track record in telecommunications projects, PCCW Solutions has further expanded services into newer vertical industries including insurance and consumer retail in mainland China.

PCPD

PCPD revenue for the six months ended June 30, 2008 decreased by 71% from a year ago to HK\$618 million, mainly due to lower revenue recognized from property completion from the Bel-Air project.

ONE Pacific Heights is PCPD's first telephone exchange redevelopment project and is located in Wo Fung Street to the west of Central. Comprising 155 luxury boutique apartments, the project started its pre-sales in June 2008 and is scheduled for completion in 2009. Meanwhile, work on PCPD's high-end residential project at No. 4 Gong Ti Bei Lu in Beijing's Chaoyang District is on target to produce 210 upmarket units in 2010. Pacific Century Place, PCPD's investment property in Beijing's central business district, enjoyed an average occupancy rate of 79% for the six months ended June 30, 2008.

For more information about the performance of PCPD, please refer to its 2008 interim results released on August 21, 2008.

Other Businesses

Other Businesses primarily includes the Group's wireless broadband business in the United Kingdom and all corporate support functions. Revenue from Other Businesses decreased by 74% year-on-year to HK\$43 million largely due to the Group's disposal of its entire interest in a telecommunications business in Taiwan in 2007.

Eliminations

Eliminations was HK\$636 million for the six months ended June 30, 2008. Eliminations primarily relates to internal charges for telecommunications services consumed, IT support and computer system network charges, customer support services and rental among the Group's business units.

COSTS**Cost of Sales**

For the six months ended HK\$ million	June 30, 2008	June 30, 2007	December 31, 2007	Better/ (Worse) y-o-y
The Group (excluding PCPD)	4,584	3,787	4,720	(21)%
PCPD	358	1,412	619	75%
Group Total	4,942	5,199	5,339	5%

The Group's consolidated total cost of sales for the year ended June 30, 2008 decreased by 5% from a year ago to HK\$4,942 million, primarily due to a 75% decline in PCPD's cost of sales to HK\$358 million on lower recognition of sales of Bel-Air residential units.

The Group's cost of sales excluding PCPD increased by 21% to HK\$4,584 million, which was in line with its revenue growth of core business, in particular TV & Content and Mobile.

General and Administrative Expenses

For the six months ended HK\$ million	June 30, 2008	June 30, 2007	December 31, 2007	Better/ (Worse) y-o-y
Staff costs	1,378	1,342	1,443	(3)%
Rent, rates and utilities	445	469	465	5%
Other operating costs	1,171	988	1,174	(19)%
Total operating costs before depreciation, amortization and restructuring costs	2,994	2,799	3,082	(7)%
Depreciation and amortization	1,750	1,610	1,660	(9)%
(Gain)/Loss on disposal of property, plant and equipment	–	(11)	4	N/A
General and administrative expenses	4,744	4,398	4,746	(8)%

General and administrative expenses for the six months ended June 30, 2008 increased by 8% year-on-year to HK\$4,744 million to cope with the increased business activities, as seen by a 13% growth in core business revenue. Depreciation and amortization increased by 9% to HK\$1,750 million, reflecting higher amortization of intangible assets, partially offset by lower depreciation charges from property, plant and equipment.

EBITDA¹

Core EBITDA grew 10% from a year ago to HK\$3,364 million for the six months ended June 30, 2008. The growth was primarily driven by a 3% increase in TSS EBITDA to HK\$3,549 million, a positive EBITDA contribution of HK\$108 million from Mobile, and the greatly improved EBITDA of TV & Content.

Consolidated EBITDA including PCPD decreased by 5% from a year ago to HK\$3,436 million, mainly due to the 87% decrease in PCPD EBITDA to HK\$72 million on lower recognition of sales of Bel-Air residential units which offset the growth from the Group's core business as discussed above.

Both core business EBITDA margin and consolidated EBITDA margin held steady at 31% and 30% respectively in the first half of 2008.

Other Gains, Net

Net other gains were HK\$16 million for the six months ended June 30, 2008 (June 30, 2007: HK\$55 million). The net other gains in the first half of 2008 primarily comprised gains on disposals of financial assets and on derivative financial instruments, partially offset by provision for impairment of investment.

Segment Results²

Core segment results, which exclude PCPD, were 7% higher than a year ago at HK\$1,637 million, mainly reflecting the 10% increase in core EBITDA as discussed above.

Consolidated segment results including PCPD decreased by 17% year-on-year to HK\$1,702 million primarily due to the 88% reduction in the PCPD segment results to HK\$65 million, which more than offset the 7% growth in core segment results as referred to above.

Interest Income and Finance Costs

Finance costs decreased by 22% year-on-year to HK\$664 million for the six months ended June 30, 2008 due to lower average market interest rates during the period and the repayment of the US\$450 million guaranteed convertible bonds and the US\$456 million guaranteed notes in January 2007. Interest income decreased by 69% year-on-year to HK\$74 million due to a lower average cash balance and lower average market interest rates. Net finance cost decreased by 3% to HK\$590 million during the period. The average cost of debt for the six months ended June 30, 2008 improved to 4.8% and the average remaining term of debt was approximately 4.4 years.

Share of Results of Associates and Jointly Controlled Companies

Share of net losses of associates and jointly controlled companies was HK\$7 million for the six months ended June 30, 2008 (June 30, 2007: HK\$1 million). The incurred losses were mainly attributable to the sharing of losses of 網通寬帶網絡有限公司.

Taxation

Taxation expenses for the six months ended June 30, 2008 increased by 11% year-on-year to HK\$417 million and the Group's effective tax rate for the six months ended June 30, 2008 was 38% (June 30, 2007: 26%). The increase of tax expenses and effective tax rate was mainly due to a lower net deferred tax credit in the period and an increase in tax provision of overseas operations. This rate is higher than the statutory tax rate of 16.5% mainly due to the fact that losses of some companies cannot be offset against profits of other companies for Hong Kong tax purposes and the disallowance of certain financing costs relating to the financing of non-income-producing assets. Excluding these factors, the Group would have an effective tax rate around the statutory tax rate of 16.5%.

Minority Interests

Minority interests of HK\$32 million primarily represented the net profit attributable to the minority shareholders of PCPD and Unihub China Information Technology Company Limited.

Profit Attributable to Equity Holders of the Company

Profit attributable to equity holders of the Company for the six months ended June 30, 2008 amounted to HK\$656 million (June 30, 2007: HK\$822 million).

LIQUIDITY AND CAPITAL RESOURCES

The Group's gross debt⁵ totaled HK\$27,373 million as at June 30, 2008 (December 31, 2007: HK\$25,774 million). Cash and cash equivalents increased to HK\$4,075 million (December 31, 2007: HK\$3,678 million). The Group's net debt⁵ was HK\$23,191 million as at June 30, 2008 compared to HK\$21,990 million as at December 31, 2007. The increase in net debt was mainly due to the payment of the 2007 final dividend, investment in property development projects and other investments made by the Group during the period.

As at June 30, 2008, the Group had a total of HK\$17,041 million in committed banking facilities available for liquidity, of which HK\$5,268 million remained undrawn.

The Group's gross debt⁵ to total assets improved to 52% as at June 30, 2008.

CREDIT RATINGS OF PCCW-HKT TELEPHONE LIMITED

In the first half of 2008, Moody's Investors Service ("Moody's") and Standard & Poor's Ratings Services ("Standard & Poor's") revised the rating outlook on PCCW-HKT Telephone Limited, an indirect wholly-owned subsidiary of the Company, as follows:

- Moody's revised the outlook to developing from positive and affirmed the rating at Baa2; and
- Standard & Poor's revised the outlook to developing from positive and affirmed the rating at BBB.

CAPITAL EXPENDITURE⁶

Group capital expenditure for the six months ended June 30, 2008 increased to HK\$1,305 million (June 30, 2007: HK\$1,036 million). The increase was mainly due to more investments in international network and for meeting demand on high-speed broadband services. PCCW will continue to invest prudently, using assessment criteria including internal rate of return, net present value and payback period.

HEDGING

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

In the normal course of business, the Group enters into forward contracts and other derivative contracts in order to limit its exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions, and all contracts are denominated in currencies of major industrial countries. As at June 30, 2008, all cross currency swap contracts were designated as cash flow hedges for the Group's foreign currency denominated long-term borrowings.

CHARGE ON ASSETS

As at June 30, 2008, certain assets of the Group with an aggregate carrying value of HK\$1 million (December 31, 2007: HK\$25 million) were pledged to secure loans and banking facilities of the Group.

CONTINGENT LIABILITIES

HK\$ million	As at June 30, 2008 (Unaudited)	As at December 31, 2007 (Audited)
Performance guarantee	845	841
Others	45	80
	890	921

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

HUMAN RESOURCES

As at June 30, 2008, the Group had approximately 16,200 employees (June 30, 2007: 15,400). About three quarters of these employees work in Hong Kong and the others are based outside Hong Kong, primarily in mainland China. The Company has established incentive bonus schemes designed to motivate and reward employees at all levels to achieve the Company's business performance targets. Payment of bonuses is generally based on achievement of EBITDA¹ and net profit after tax targets for the Group as a whole, and revenue and EBITDA¹ targets for the Company's individual businesses. The Company also operates a discretionary employee share option scheme and two share award schemes to motivate employee performance to enhance shareholders' value.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of 7 HK cents (June 30, 2007: 6.5 HK cents) per share for the six months ended June 30, 2008 to shareholders of the Company whose names appear on the register of members of the Company on September 30, 2008, payable on or around October 8, 2008.

CONSOLIDATED INCOME STATEMENT

For the six months ended June 30, 2008

In HK\$ million (except for earnings per share)	Note	2008 (Unaudited)	2007 (Unaudited)
Turnover	2	11,372	11,607
Cost of sales		(4,942)	(5,199)
General and administrative expenses		(4,744)	(4,398)
Other gains, net	3	16	55
Losses on property, plant and equipment		–	(2)
Interest income		74	236
Finance costs		(664)	(846)
Share of results of associates		4	7
Share of results of jointly controlled companies		(11)	(8)
Profit before income tax	4	1,105	1,452
Income tax	5	(417)	(377)
Profit for the period	2	688	1,075
Attributable to:			
Equity holders of the Company		656	822
Minority interests		32	253
Profit for the period		688	1,075
Interim dividend declared after the interim period	6(a)	474	440
Earnings per share	7		
Basic		9.68 cents	12.16 cents
Diluted		9.67 cents	11.96 cents

The notes on pages 24 to 29 form an integral part of this unaudited condensed consolidated interim financial information.

CONSOLIDATED BALANCE SHEET

As at June 30, 2008

In HK\$ million	Note	As at June 30, 2008 (Unaudited)	As at December 31, 2007 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		16,792	16,852
Investment properties		4,194	3,920
Interests in leasehold land		604	615
Properties held for/under development		1,518	1,671
Goodwill		3,017	3,016
Intangible assets		1,729	1,638
Interest in associates		656	655
Interest in jointly controlled companies		305	316
Held-to-maturity investments		5	6
Available-for-sale financial assets		384	321
Amounts due from related companies		6	9
Lease payments receivable		91	91
Deferred income tax assets		174	216
Other non-current assets		487	471
		29,962	29,797
Current assets			
Properties under development		9,299	8,436
Properties for sale		622	697
Sales proceeds held in stakeholders' accounts		1,668	2,425
Restricted cash		802	682
Prepayments, deposits and other current assets		1,880	2,007
Inventories		914	854
Amounts due from related companies		22	16
Derivative financial instruments		376	43
Financial assets at fair value through profit or loss		-	12
Trade receivables, net	8	2,833	2,709
Tax recoverable		2	1
Cash and cash equivalents		4,075	3,678
		22,493	21,560

CONSOLIDATED BALANCE SHEET (CONTINUED)

As at June 30, 2008

In HK\$ million	Note	As at June 30, 2008 (Unaudited)	As at December 31, 2007 (Audited)
Current liabilities			
Short-term borrowings		(11,773)	(10,174)
Derivative financial instruments		–	(13)
Trade payables	9	(1,141)	(1,264)
Accruals and other payables		(4,170)	(4,785)
Amount payable to the Government under the Cyberport Project Agreement		(6,968)	(5,178)
Mobile carrier licence fee liabilities		(73)	(67)
Amounts due to related companies		(611)	(539)
Gross amounts due to customers for contract work		(4)	(7)
Advances from customers		(3,397)	(3,434)
Current income tax liabilities		(559)	(684)
		(28,696)	(26,145)
Net current liabilities		(6,203)	(4,585)
Total assets less current liabilities		23,759	25,212
Non-current liabilities			
Long-term borrowings		(15,518)	(15,505)
Deferred income tax liabilities		(2,041)	(2,150)
Deferred income		(712)	(719)
Defined benefit liability		(8)	(9)
Amount payable to the Government under the Cyberport Project Agreement		–	(1,741)
Mobile carrier licence fee liabilities		(557)	(532)
Other long-term liabilities		(152)	(205)
		(18,988)	(20,861)
Net assets		4,771	4,351
CAPITAL AND RESERVES			
Share capital	10	1,693	1,695
Reserves/(deficit)		140	(143)
Equity attributable to equity holders of the Company		1,833	1,552
Minority interests		2,938	2,799
Total equity		4,771	4,351

The notes on pages 24 to 29 form an integral part of this unaudited condensed consolidated interim financial information.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2008

In HK\$ million

2008
(Unaudited)

	Attributable to equity holders of the Company										Minority interests	Total equity	
	Share capital	Share premium	Special capital reserve	Capital redemption reserve	Treasury stock	Employee share-based compensation reserve	Currency translation reserve	Hedging reserve	Available-for-sale financial assets reserve	Deficit			Total
At January 1, 2008	1,695	7,968	21,254	-	(18)	143	327	115	16	(29,948)	1,552	2,799	4,351
Translation exchange differences	-	-	-	-	-	-	206	-	-	-	206	107	313
Available-for-sale financial assets:													
– changes in fair value	-	-	-	-	-	-	-	-	(30)	-	(30)	-	(30)
– transfer to income statement on impairment	-	-	-	-	-	-	-	-	24	-	24	-	24
Cash flow hedges:													
– effective portion of changes in fair value	-	-	-	-	-	-	-	395	-	-	395	-	395
– transfer from equity to income statement	-	-	-	-	-	-	-	(19)	-	-	(19)	-	(19)
Net gains/(losses) recognized directly in equity	-	-	-	-	-	-	206	376	(6)	-	576	107	683
Profit for the period	-	-	-	-	-	-	-	-	-	656	656	32	688
Total recognized income/(expense) for the period	-	-	-	-	-	-	206	376	(6)	656	1,232	139	1,371
Repurchase of shares	(3)	-	(49)	3	-	-	-	-	-	-	(49)	-	(49)
Exercise of employee share options	1	12	-	-	-	-	-	-	-	-	13	-	13
Premium arising from exercise of employee share options	-	5	-	-	-	(5)	-	-	-	-	-	-	-
Movements in equity arising from capital transactions	(2)	17	(49)	3	-	(5)	-	-	-	-	(36)	-	(36)
	1,693	7,985	21,205	3	(18)	138	533	491	10	(29,292)	2,748	2,938	5,686
Dividend paid in respect of the previous year	-	-	-	-	-	-	-	-	-	(915)	(915)	-	(915)
At June 30, 2008	1,693	7,985	21,205	3	(18)	138	533	491	10	(30,207)	1,833	2,938	4,771

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended June 30, 2008

In HK\$ million

 2007
(Unaudited)

	Attributable to equity holders of the Company											Minority interests	Total equity
	Share capital	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	Total		
At January 1, 2007	1,688	7,791	21,254	(37)	213	183	87	(447)	79	(30,381)	430	2,469	2,899
Translation exchange differences	-	-	-	-	-	-	113	-	-	-	113	51	164
Available-for-sale financial assets:													
– changes in fair value	-	-	-	-	-	-	-	-	44	-	44	-	44
Cash flow hedges:													
– effective portion of changes in fair value	-	-	-	-	-	-	-	529	-	-	529	-	529
– transfer from equity to income statement	-	-	-	-	-	-	-	(79)	-	-	(79)	-	(79)
Redemption of convertible bonds	-	-	-	-	-	(183)	-	-	-	183	-	-	-
Net gains/(losses) recognized directly in equity	-	-	-	-	-	(183)	113	450	44	183	607	51	658
Profit for the period	-	-	-	-	-	-	-	-	-	822	822	253	1,075
Total recognized income/(expense) for the period	-	-	-	-	-	(183)	113	450	44	1,005	1,429	304	1,733
Exercise of employee share options	5	96	-	-	-	-	-	-	-	-	101	-	101
Premium arising from exercise of employee share options	-	49	-	-	(49)	-	-	-	-	-	-	-	-
Awards of vested shares under share award schemes to employees	-	-	-	19	(19)	-	-	-	-	-	-	-	-
Employee share-based compensation	-	-	-	-	11	-	-	-	-	-	11	-	11
Movements in equity arising from capital transactions	5	145	-	19	(57)	-	-	-	-	-	112	-	112
	1,693	7,936	21,254	(18)	156	-	200	3	123	(29,376)	1,971	2,773	4,744
Dividend paid in respect of the previous year	-	-	-	-	-	-	-	-	-	(813)	(813)	-	(813)
Dividend paid to minority shareholders of a subsidiary in respect of the previous year	-	-	-	-	-	-	-	-	-	-	-	(51)	(51)
Increase in minority interests arising from decrease in holding in a subsidiary	-	-	-	-	-	-	-	-	-	-	-	13	13
At June 30, 2007	1,693	7,936	21,254	(18)	156	-	200	3	123	(30,189)	1,158	2,735	3,893

The notes on pages 24 to 29 form an integral part of this unaudited condensed consolidated interim financial information.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended June 30, 2008

In HK\$ million	2008 (Unaudited)	2007 (Unaudited)
Net cash generated from operating activities	2,007	1,899
Net cash used in investing activities	(1,599)	(2,916)
Net cash (used in)/generated from financing activities	(45)	638
Increase/(decrease) in cash and cash equivalents	363	(379)
Exchange differences	34	(34)
Cash and cash equivalents at January 1	3,678	4,951
Cash and cash equivalents at June 30	4,075	4,538
Analysis of the balance of cash and cash equivalents:		
Cash and bank balances	4,888	6,451
Bank overdrafts	(11)	(6)
Less: Restricted cash	(802)	(1,907)
	4,075	4,538

The notes on pages 24 to 29 form an integral part of this unaudited condensed consolidated interim financial information.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended June 30, 2008

1 BASIS OF PREPARATION

The unaudited condensed consolidated interim financial information of PCCW Limited (the “Company”) and its subsidiaries (collectively the “Group”) has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended December 31, 2007.

The unaudited condensed consolidated interim financial information has been reviewed by the Company’s Audit Committee and, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA, by the Company’s independent auditor.

The preparation of the unaudited condensed consolidated interim financial information in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year-to-date basis. Actual results may differ from these estimates.

The accounting policies and methods of computation used in preparing this unaudited condensed consolidated interim financial information are consistent with those followed in preparing the Group’s annual financial statements for the year ended December 31, 2007, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards, HKASs and Interpretations (“Ints”) (collectively “new HKFRSs”) which are effective for accounting periods beginning on or after January 1, 2008:

- HK(IFRIC)-Int 11 HKFRS 2 – Group and Treasury Share Transactions
- HK(IFRIC)-Int 12 Service Concession Arrangements
- HK(IFRIC)-Int 14 HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction

The adoption of these new HKFRSs has no material effect on the Group’s results and financial position for the current or prior periods.

2 SEGMENT INFORMATION

An analysis of turnover and contribution to the Group’s results by business segment is set out below:

In HK\$ million

For the six months ended June 30,	Telecommunications						Pacific Century Premium Developments				Other Businesses		Eliminations		Consolidated	
	Services		TV & Content		Mobile		PCCW Solutions		Limited		Other Businesses		Eliminations		Consolidated	
	2008 (Unaudited)	2007 (Unaudited)	2008 (Unaudited)	2007 (Unaudited)	2008 (Unaudited)	2007 (Unaudited)	2008 (Unaudited)	2007 (Unaudited)	2008 (Unaudited)	2007 (Unaudited)	2008 (Unaudited)	2007 (Unaudited)	2008 (Unaudited)	2007 (Unaudited)	2008 (Unaudited)	2007 (Unaudited)
TURNOVER	8,551	7,706	1,039	715	857	668	900	826	618	2,100	43	165	(636)	(573)	11,372	11,607
RESULTS																
Segment results	2,465	2,392	(169)	(150)	(252)	(361)	55	73	65	531	(462)	(422)	-	-	1,702	2,063
Interest income															74	236
Finance costs															(664)	(846)
Share of results of associates and jointly controlled companies	(7)	(1)	-	-	-	-	-	-	-	-	-	-	-	-	(7)	(1)
Profit before income tax															1,105	1,452
Income tax															(417)	(377)
Profit for the period															688	1,075

3 OTHER GAINS, NET

In HK\$ million	Six months ended	
	June 30, 2008 (Unaudited)	June 30, 2007 (Unaudited)
Net realized gains/(losses) on disposals of available-for-sale financial assets and financial assets at fair value through profit or loss	18	(21)
Net unrealized gains on financial assets at fair value through profit or loss	–	3
Net realized and unrealized fair value gains on derivative financial instruments	7	69
Provision for impairment of investment	(24)	–
Unclaimed dividend payable by a subsidiary written back	–	2
Net gain on cash flow hedging instruments transferred from equity	15	–
Others	–	2
	16	55

4 PROFIT BEFORE INCOME TAX

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

In HK\$ million	Six months ended	
	June 30, 2008 (Unaudited)	June 30, 2007 (Unaudited)
Crediting:		
Revenue from properties sold	415	1,939
Gain on disposal of property, plant and equipment	–	11
Charging:		
Cost of sales, excluding properties sold	4,634	3,833
Cost of properties sold	308	1,366
Depreciation of property, plant and equipment	1,369	1,432
Amortization of intangible assets	365	165
Amortization of land lease premium	16	13
Finance costs on borrowings	630	813
Staff costs	1,378	1,342

5 INCOME TAX

In HK\$ million	Six months ended	
	June 30, 2008 (Unaudited)	June 30, 2007 (Unaudited)
Current income tax:		
Hong Kong profits tax	464	534
Overseas tax	41	21
Recovery of deferred income tax	(88)	(178)
	417	377

5 INCOME TAX (CONTINUED)

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits for the period. Overseas tax has been calculated on the estimated assessable profits for the period at the rates prevailing in the respective jurisdictions.

On March 16, 2007, the National People's Congress of the People's Republic of China (the "PRC") approved the Corporate Income Tax Law (the "new CIT Law"). The new CIT Law reduced the corporate income tax rate applicable to the Group's operations in the PRC from 33% to 25% with effect from January 1, 2008. Accordingly, the deferred tax liabilities for the Group's operations in the PRC as at June 30, 2007 was provided at the rate of 25% on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases. The effect on the change in corporate income tax rate applicable to the Group's operations in the PRC was recognized in the income statement for the six months ended June 30, 2007.

6 DIVIDENDS

a. Dividend attributable to the interim period

In HK\$ million	Six months ended	
	June 30, 2008 (Unaudited)	June 30, 2007 (Unaudited)
Interim dividend declared after the interim period of 7 HK cents (2007: 6.5 HK cents) per ordinary share	474	440

At a meeting held on August 21, 2008, the directors declared an interim dividend of 7 HK cents per ordinary share for the year ending December 31, 2008. This interim dividend is not reflected as a dividend payable in this unaudited condensed consolidated interim financial information, but will be reflected as an appropriation of retained earnings for the year ending December 31, 2008.

b. Dividend attributable to the previous financial year, approved and paid during the interim period

In HK\$ million	Six months ended	
	June 30, 2008 (Unaudited)	June 30, 2007 (Unaudited)
Final dividend in respect of the previous financial year, approved and paid during the interim period, of 13.5 HK cents (2007: 12 HK cents) per ordinary share	915	813

7 EARNINGS PER SHARE

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

	Six months ended	
	June 30, 2008 (Unaudited)	June 30, 2007 (Unaudited)
Earnings (in HK\$ million)		
Earnings for the purposes of basic and diluted earnings per share	656	822
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	6,776,300,672	6,758,086,867
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	6,072,024	111,466,808
Effect of awards of vested shares under the Company's share award schemes	2,519,109	3,731,974
Weighted average number of ordinary shares for the purpose of diluted earnings per share	6,784,891,805	6,873,285,649

8 TRADE RECEIVABLES, NET

An aging analysis of trade receivables is set out below:

In HK\$ million	As at June 30, 2008 (Unaudited)	As at December 31, 2007 (Audited)
0 – 30 days	1,365	1,584
31 – 60 days	637	461
61 – 90 days	271	209
91 – 120 days	157	142
Over 120 days	700	591
	3,130	2,987
Less: Impairment loss for doubtful debts	(297)	(278)
	2,833	2,709

Trade receivables in respect of properties sold are payable by the purchasers pursuant to the terms of the sales contracts. Other trade receivables have a normal credit period ranging up to 30 days from the date of invoice or per contracted terms unless there is a separate mutual agreement on extension of the credit period. 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.

9 TRADE PAYABLES

An aging analysis of trade payables is set out below:

In HK\$ million	As at June 30, 2008 (Unaudited)	As at December 31, 2007 (Audited)
0 – 30 days	610	721
31 – 60 days	123	134
61 – 90 days	105	29
91 – 120 days	10	24
Over 120 days	293	356
	1,141	1,264

10 SHARE CAPITAL

	Number of shares (Unaudited)	Nominal value (Unaudited) HK\$ million
Authorized:		
Ordinary shares of HK\$0.25 each	10,000,000,000	2,500
Issued and fully paid:		
Ordinary shares of HK\$0.25 each		
Balances as at January 1, 2008	6,778,627,153	1,695
Exercise of employee share options (note a)	3,031,001	1
Repurchase of shares (note b)	(10,000,000)	(3)
Balances as at June 30, 2008	6,771,658,154	1,693

a. During the period, 963,001 and 2,068,000 employee share options were exercised by the eligible option holders at subscription prices of HK\$4.35 and HK\$4.475 respectively for a total cash consideration of HK\$13,443,354 resulting in the issue of an aggregate of 3,031,001 new ordinary shares of the Company of HK\$0.25 each.

b. On June 6, 2008, the Company repurchased a total of 10,000,000 ordinary shares on The Stock Exchange of Hong Kong Limited at a purchase price of HK\$4.84 per share at an aggregate consideration of HK\$48,400,000 (before transaction costs). The repurchased shares were cancelled prior to June 30, 2008 and accordingly the issued share capital of the Company was reduced by the nominal value of these shares.

11 CAPITAL COMMITMENTS

In HK\$ million	As at June 30, 2008 (Unaudited)	As at December 31, 2007 (Audited)
Authorized and contracted for	1,544	1,820
Authorized but not contracted for	2,113	2,002
	3,657	3,822

12 CONTINGENT LIABILITIES

In HK\$ million	As at June 30, 2008 (Unaudited)	As at December 31, 2007 (Audited)
Performance guarantee	845	841
Others	45	80
	890	921

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

13 CHARGE ON ASSETS

As at June 30, 2008, certain assets of the Group with an aggregate carrying value of HK\$1 million (December 31, 2007: HK\$25 million) were pledged to secure loans and banking facilities of the Group.

14 RELATED PARTY TRANSACTIONS

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

In HK\$ million	Note(s)	Six months ended	
		June 30, 2008 (Unaudited)	June 30, 2007 (Unaudited)
Telecommunications service fees, rental charges, facility management services and subcontracting charges received or receivable from a jointly controlled company	a & c	51	62
Telecommunications service fees and systems integration charges received or receivable from a substantial shareholder	a	30	77
Telecommunications service fees, outsourcing fees and rental charges paid or payable to a jointly controlled company	a & c	380	492
Telecommunications service fees paid or payable to a substantial shareholder	a	23	44
Key management compensation	b	51	83

a. These transactions were carried out after negotiations between the Group and the related parties in the ordinary course of business. 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	Six months ended	
	June 30, 2008 (Unaudited)	June 30, 2007 (Unaudited)
Salaries and other short-term employee benefits	49	66
Post-employment benefits	2	2
Share-based compensation	–	15
	51	83

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

On June 17, 2004, the Company and Telstra Corporation Limited (“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. During the six months ended June 30, 2007, no draw down was made by the JV under this facility and the facility expired on December 31, 2007.

On April 16, 2005, the Company agreed with Telstra and the JV on an operating model under which the JV would operate as an outsourcer of telecommunications network services for the Group and Telstra and its subsidiaries. During the six months ended June 30, 2008, the outsourcing fees paid or payable by the Group to the JV, determined on a cost plus basis, were HK\$291 million (2007: HK\$397 million).

GENERAL INFORMATION

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

As at June 30, 2008, the directors and chief executive of the Company and their associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

1. Interests in the Company

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

Name of Director/ Chief Executive	Personal interests	Number of ordinary shares			Number of underlying shares held under equity derivatives	Total	Approximate percentage of issued share capital
		Family interests	Corporate interests	Other interests			
Li Tzar Kai, Richard	–	–	250,109,824 <i>(Note 1(a))</i>	1,650,518,335 <i>(Note 1(b))</i>	–	1,900,628,159	28.07%
Alexander Anthony Arena	760,000	–	–	–	15,800,200 <i>(Note 2)</i>	16,560,200	0.24%
Peter Anthony Allen	253,200	–	–	–	4,629,200 <i>(Note 3)</i>	4,882,400	0.07%
Chung Cho Yee, Mico	1,176,260	18,455 <i>(Note 4)</i>	–	–	14,390,400 <i>(Note 3)</i>	15,585,115	0.23%
Lee Chi Hong, Robert	992,600 <i>(Note 5(a))</i>	511 <i>(Note 5(b))</i>	–	–	6,000,000 <i>(Note 3)</i>	6,993,111	0.10%
Sir David Ford	–	–	–	–	3,000,000 <i>(Note 3)</i>	3,000,000	0.04%
Prof Chang Hsin-kang	64,000	–	–	–	–	64,000	0.001%
Dr The Hon Sir Li Kwok Po, David	600,000	–	–	–	–	600,000	0.009%

Notes:

1. (a) Of these shares, Pacific Century Diversified Limited, a wholly-owned subsidiary of Chiltonlink Limited, held 216,362,824 shares and Eisner Investments Limited held 33,747,000 shares. Li Tzar Kai, Richard owned 100% of Chiltonlink Limited and Eisner Investments Limited.
- (b) These interests represented:
 - (i) a deemed interest in 36,726,857 shares of the Company held by Yue Shun Limited, a subsidiary of Hutchison Whampoa Limited ("HWL"). Cheung Kong (Holdings) Limited ("Cheung Kong") through certain subsidiaries held more than one-third of the issued share capital of HWL. Li Tzar Kai, Richard was a discretionary beneficiary of certain discretionary trusts which held units in unit trusts which in turn held interests in certain shares of Cheung Kong and HWL. Li Tzar Kai, Richard was also interested in one-third of the issued share capital of two companies, which owned all the shares of the trustee companies which acted as trustees of such discretionary trusts and unit trusts. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 36,726,857 shares of the Company held by Yue Shun Limited;
 - (ii) a deemed interest in 87,018,177 shares of the Company held by Pacific Century Group Holdings Limited ("PCGH"). Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 87,018,177 shares of the Company held by PCGH; and

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

1. Interests in the Company (continued)

Notes: (continued)

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

2. Interests in Associated Corporation of the Company

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

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

The above interest represented the interest in underlying shares in respect of share options granted by PCPD to the director and chief executive of the Company as beneficial owner pursuant to PCPD's share option scheme, the details of which are set out in the section headed "SHARE OPTION SCHEMES" of this report.

Save as disclosed in the foregoing, none of the directors or chief executive of the Company or their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code of the Listing Rules as at June 30, 2008.

SHARE OPTION SCHEMES

1. Share Option Schemes of the Company

The Company adopted a share option scheme on September 20, 1994 (the "1994 Scheme"). At the annual general meeting of the Company held on May 19, 2004, the shareholders of the Company approved the termination of the 1994 Scheme and adoption of a new share option scheme (the "2004 Scheme"). Following the termination of the 1994 Scheme during 2004, no further share options will be granted under such scheme, but the provisions of such scheme will remain in full force and effect with respect to the options granted prior to its termination. Since May 19, 2004, the board of directors of the Company may, at its discretion, grant share options to any eligible person to subscribe for shares of the Company subject to the terms and conditions stipulated in the 2004 Scheme.

Details of the share options outstanding and movements during the six months ended June 30, 2008 are as follows:

A. 1994 Scheme

(1) Outstanding options at January 1, 2008 and at June 30, 2008

Name or category of participant	Date of grant (Notes 1 & 2)	Vesting period (Note 1)	Exercisable period (Note 1)	Exercise price HK\$	Number of options	
					Outstanding at 01.01.2008	Outstanding at 06.30.2008
Director/Chief Executive						
Alexander Anthony Arena	08.28.1999	08.17.2000 to 08.17.2004	08.17.2000 to 08.17.2009	11.7800	3,200,000	3,200,000
	08.26.2000	08.26.2001 to 08.26.2005	08.26.2001 to 08.26.2010	60.1200	1,600,000	1,600,000
	02.20.2001	08.26.2001 to 08.26.2005	08.26.2001 to 01.22.2011	16.8400	1,600,000	1,600,000
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	6,400,000	6,400,000
Peter Anthony Allen	08.28.1999	08.17.2000 to 08.17.2002	08.17.2000 to 08.17.2009	11.7800	272,000	272,000
	08.26.2000	08.26.2001 to 08.26.2005	08.26.2001 to 08.26.2010	60.1200	178,600	178,600
	02.20.2001	08.26.2001 to 08.26.2005	08.26.2001 to 01.22.2011	16.8400	178,600	178,600
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	2,000,000	2,000,000
Chung Cho Yee, Mico	08.28.1999	08.17.2000 to 08.17.2004	08.17.2001 to 08.17.2009	11.7800	3,575,200	3,575,200
	08.26.2000	08.26.2001 to 08.26.2005	08.26.2001 to 08.26.2010	60.1200	1,060,000	1,060,000
	02.20.2001	08.26.2001 to 08.26.2005	08.26.2001 to 01.22.2011	16.8400	1,060,000	1,060,000
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	5,695,200	5,695,200
Lee Chi Hong, Robert	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	5,000,000	5,000,000
Sir David Ford	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	1,000,000	1,000,000

SHARE OPTION SCHEMES (CONTINUED)

1. Share Option Schemes of the Company (continued)

A. 1994 Scheme (continued)

(1) Outstanding options at January 1, 2008 and at June 30, 2008 (continued)

Name or category of participant	Date of grant (Notes 1 & 2)	Vesting period (Note 1)	Exercisable period (Note 1)	Exercise price HK\$	Number of options	
					Outstanding at 01.01.2008	Outstanding at 06.30.2008
Employees						
In aggregate	08.17.1999 to 09.15.1999	(Note 3)	08.17.2000 to 08.17.2009	11.7800	5,722,393	5,514,793
	10.25.1999 to 11.23.1999	(Note 3)	10.25.2000 to 10.25.2009	22.7600	1,724,000	1,686,000
	02.08.2000 to 03.08.2000	02.08.2001 to 02.08.2003	02.08.2001 to 02.08.2010	75.2400	86,700	86,700
	08.26.2000 to 09.24.2000	(Note 4)	(Note 4)	60.1200	911,000	823,000
	10.27.2000 to 11.25.2000	(Note 5)	(Note 5)	24.3600	8,742,906	8,486,866
	01.22.2001 to 02.20.2001	(Note 6)	(Note 6)	16.8400	5,532,439	5,326,879
	02.20.2001	02.08.2002 to 02.08.2004	02.08.2002 to 02.08.2011	18.7600	86,700	86,700
	04.17.2001 to 05.16.2001	(Note 7)	(Note 7)	10.3000	1,068,840	1,060,520
	07.16.2001 to 09.15.2001	07.16.2002 to 07.16.2004	07.16.2002 to 07.16.2011	9.1600	236,320	226,480
	05.10.2002	(Note 3)	04.11.2003 to 04.11.2012	7.9150	86,700	86,700
	08.01.2002	08.01.2003 to 08.01.2005	08.01.2003 to 07.31.2012	8.0600	200,000	200,000
	11.13.2002	11.13.2003 to 11.13.2005	11.13.2003 to 11.12.2012	6.1500	6,500,000	6,240,000
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	31,816,673	30,853,672
	09.16.2003	09.16.2004 to 09.16.2006	09.16.2004 to 09.14.2013	4.9000	157,000	7,000
Others	08.17.1999 to 09.15.1999	(Note 3)	08.17.2000 to 08.17.2009	11.7800	800,000	800,000
	08.26.2000 to 09.24.2000	(Note 4)	(Note 4)	60.1200	2,800,000	2,800,000
	01.22.2001 to 02.20.2001	(Note 6)	(Note 6)	16.8400	2,800,000	2,800,000
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	1,000,000	1,000,000

SHARE OPTION SCHEMES (CONTINUED)

1. Share Option Schemes of the Company (continued)

A. 1994 Scheme (continued)

(2) Options exercised during the six months ended June 30, 2008

Name or category of participant	Date of grant (Note 1)	Vesting period (Note 1)	Exercisable period (Note 1)	Exercise price HK\$	Number of shares acquired on exercise of options	Weighted average closing price of the shares immediately before the dates on which the options were exercised HK\$
Employees						
In aggregate	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	963,001	4.9289

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

(3) Options cancelled or lapsed during the six months ended June 30, 2008

Name or category of participant	Exercise price HK\$	Number of options cancelled	Number of options lapsed
Employees			
In aggregate	11.7800	–	207,600
	22.7600	–	38,000
	60.1200	–	88,000
	24.3600	–	256,040
	16.8400	–	205,560
	10.3000	–	8,320
	9.1600	–	9,840
	6.1500	–	260,000
	4.9000	–	150,000

SHARE OPTION SCHEMES (CONTINUED)

1. Share Option Schemes of the Company (continued)

B. 2004 Scheme

(1) Outstanding options at January 1, 2008 and at June 30, 2008

Name or category of participant	Date of grant (Note 1)	Vesting period (Note 1)	Exercisable period (Note 1)	Exercise price HK\$	Number of options	
					Outstanding at 01.01.2008	Outstanding at 06.30.2008
Director/Chief Executive						
Alexander Anthony Arena	02.08.2005	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.4750	3,000,000	3,000,000
Peter Anthony Allen	02.08.2005	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.4750	2,000,000	2,000,000
Chung Cho Yee, Mico	02.08.2005	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.4750	3,000,000	3,000,000
Lee Chi Hong, Robert	02.08.2005	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.4750	1,000,000	1,000,000
Sir David Ford	02.08.2005	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.4750	2,000,000	2,000,000
Employees						
In aggregate	02.08.2005	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.4750	30,275,500	27,982,000

(2) Options granted during the six months ended June 30, 2008

During the period under review, no share options were granted to any directors or chief executive of the Company or employees of the Group or other participants.

SHARE OPTION SCHEMES (CONTINUED)

1. Share Option Schemes of the Company (continued)

B. 2004 Scheme (continued)

(3) Options exercised during the six months ended June 30, 2008

Name or category of participant	Date of grant (Note 1)	Vesting period (Note 1)	Exercisable period (Note 1)	Exercise price HK\$	Number of shares acquired on exercise of options	Weighted average closing price of the shares immediately before the dates on which the options were exercised HK\$
Employees						
In aggregate	02.08.2005	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.4750	2,068,000	4.9639

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

(4) Options cancelled or lapsed during the six months ended June 30, 2008

Name or category of participant	Exercise price HK\$	Number of options cancelled	Number of options lapsed
Employees			
In aggregate	4.4750	–	225,500

2. Share Option Schemes of Subsidiary of the Company

PCPD

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

SHARE OPTION SCHEMES (CONTINUED)

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

PCPD (continued)

Details of the share options outstanding under the 2003 PCPD Scheme and movements during the six months ended June 30, 2008 are as follows:

2003 PCPD Scheme

(1) Outstanding options at January 1, 2008 and at June 30, 2008

Name or category of participant	Date of grant (Note 1)	Vesting period (Note 1)	Exercisable period (Note 1)	Exercise price HK\$	Number of options	
					Outstanding at 01.01.2008	Outstanding at 06.30.2008
Director/Chief Executive of the Company						
Chung Cho Yee, Mico	12.20.2004	Fully vested on 12.20.2004	12.20.2004 to 12.19.2014	2.375	5,000,000	5,000,000

As at June 30, 2008, the total number of shares of PCPD that may be issued upon exercise of all share options granted and yet to be exercised under the 2003 PCPD Scheme was 5,000,000, which represented approximately 0.21% of the issued share capital of PCPD as at that date.

(2) Options granted during the six months ended June 30, 2008

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

(3) Options exercised during the six months ended June 30, 2008

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

(4) Options cancelled or lapsed during the six months ended June 30, 2008

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

2005 PCPD Scheme

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

Notes:

1. All dates are shown month/day/year.
2. Due to the large number of employees participating in the 1994 Scheme, certain information such as the date of grant can only be shown within a reasonable range in this report. For options granted to employees, the options were granted, where applicable, during the underlying periods for acceptance of the offer of such options by the employees concerned.
3. These options vest in installments during a period starting from the first anniversary of the offer date of such options (the "Offer Date") and ending on either the third or fifth anniversary of the Offer Date inclusive.
4. These options vest in installments during a period starting from: (i) May 26, 2001 and ending on May 26, 2003 inclusive; (ii) the first anniversary of the Offer Date and ending on the third anniversary of the Offer Date inclusive; or (iii) the first anniversary of the Offer Date and ending on the fifth anniversary of the Offer Date inclusive. All these options are exercisable in installments from the commencement of the relevant vesting period until the tenth anniversary of the Offer Date.
5. These options vest in installments during a period starting from: (i) March 15, 2001 and ending on March 15, 2005 inclusive; or (ii) the first anniversary of the Offer Date and ending on the third anniversary of the Offer Date inclusive. All these options are exercisable in installments from the commencement of the relevant vesting period until the tenth anniversary of the Offer Date.
6. These options vest in installments during a period starting from: (i) dates ranging between the date of grant to August 26, 2001 and ending on dates ranging between December 7, 2002 to August 26, 2005 inclusive; (ii) the first anniversary of the Offer Date and ending on the third anniversary of the Offer Date inclusive; or (iii) the first anniversary of the Offer Date and ending on the fifth anniversary of the Offer Date inclusive. All these options are exercisable in installments from the commencement of the relevant vesting period until the tenth anniversary of the Offer Date.
7. These options vest in installments during a period starting from: (i) May 26, 2001 and ending on May 26, 2005 inclusive; (ii) the first anniversary of the Offer Date and ending on the third anniversary of the Offer Date inclusive; or (iii) the first anniversary of the Offer Date and ending on the fifth anniversary of the Offer Date inclusive. All these options are exercisable in installments from the commencement of the relevant vesting period until the tenth anniversary of the Offer Date.

SHARE AWARD SCHEMES

In 2002, the Company established two employee share incentive award schemes, namely the Purchase Scheme and the Subscription Scheme, under which employees of participating subsidiaries of the Company (excluding directors of the Company) may be selected to participate in such schemes. Subject to the relevant scheme rules, each scheme provides that following the making of an award to an employee, the relevant shares are held in trust for that employee and then shall vest over a period of time provided that the employee remains an employee of the applicable subsidiary of the Company at the relevant time and satisfies any other conditions specified at the time the award is made. In May 2006, the rules of the Purchase Scheme were altered such that the directors of the Company are also eligible to participate in such scheme. During the six months ended June 30, 2008, no awards have been made to any directors and employees of the Company or its subsidiaries under these two schemes.

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

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at June 30, 2008, the following persons (other than any directors or chief executive of the Company) were substantial shareholders of the Company (as defined in the Listing Rules) and had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of substantial shareholder	Note	Number of shares/underlying shares held	Approximate percentage of issued share capital
Interests			
PCRD		1,526,773,301	22.55%
PCGH	1	1,613,791,478	23.83%
Star Ocean Ultimate Limited	2	1,613,791,478	23.83%
The Ocean Trust	2	1,613,791,478	23.83%
The Starlite Trust	2	1,613,791,478	23.83%
OS Holdings Limited	2	1,613,791,478	23.83%
Ocean Star Management Limited	2	1,613,791,478	23.83%
The Ocean Unit Trust	2	1,613,791,478	23.83%
The Starlite Unit Trust	2	1,613,791,478	23.83%
China Network Communications Group Corporation ("China Netcom")	3	1,343,571,766	19.84%

Notes:

- These interests represented (i) PCGH's beneficial interests in 87,018,177 shares; and (ii) PCGH's interests through its controlled corporations (being its wholly-owned subsidiaries, Borsington Limited, Pacific Century International Limited, Pacific Century Group (Cayman Islands) Limited and Anglang Investments Limited, which together controlled 75.33% of PCRD) in 1,526,773,301 shares held by PCRD.
- On April 18, 2004, Li Tzar Kai, Richard transferred the entire issued share capital of PCGH to Ocean Star Management Limited as trustee of The Ocean Unit Trust and The Starlite Unit Trust. The entire issued share capital of Ocean Star Management Limited was held by OS Holdings Limited. The Ocean Trust and The Starlite Trust held all units of The Ocean Unit Trust and The Starlite Unit Trust respectively. Star Ocean Ultimate Limited was the discretionary trustee of The Ocean Trust and The Starlite Trust.
- China Netcom indirectly held these interests through its indirect wholly-owned subsidiary China Netcom Corporation (BVI) Limited.

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

As at June 30, 2008, the following person (not being the director or chief executive or substantial shareholder (as disclosed in the previous section headed “INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS”) of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name		Number of shares/underlying shares held	Approximate percentage of issued share capital
Interests			
Ocean Star Investment Management Limited	<i>Note</i>	1,613,791,478	23.83%

Note:

Ocean Star Investment Management Limited was deemed interested under the SFO in the shares of the Company by virtue of it being the investment manager of The Ocean Unit Trust and The Starlite Unit Trust which together held 100% of PCGH (see the Notes of the previous section headed “INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS”).

Save as disclosed above in this section and the previous section headed “INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS”, the Company had not been notified of any other persons (other than any directors or chief executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at June 30, 2008.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

On June 6, 2008, the Company repurchased a total of 10,000,000 ordinary shares on the Stock Exchange at a purchase price of HK\$4.84 per share at an aggregate consideration of HK\$48,400,000 (before transaction costs). The repurchased shares were cancelled prior to June 30, 2008 and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The repurchase was effected with a view to benefit shareholders as a whole in enhancing the shareholders' value and earnings per share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the six months ended June 30, 2008.

AUDIT COMMITTEE

The Company's Audit Committee has reviewed the accounting policies adopted by the Group and the unaudited condensed consolidated interim financial information of the Group for the six months ended June 30, 2008. Such condensed consolidated interim financial information has not been audited but has been reviewed by the Company's independent auditor.

MODEL CODE SET OUT IN APPENDIX 10 TO THE LISTING RULES

The Company has established its own code of conduct regarding securities transactions by directors, senior management and relevant employees as defined in the PCCW Code of Conduct for Securities Transactions by Directors, Senior Management and Nominated Persons (the “PCCW Code”) on terms no less exacting than the required standard set out in the Model Code. Having made specific inquiries of all directors of the Company, confirmations have been received of compliance with the required standard set out in the Model Code and the PCCW Code during the accounting period covered by this interim report.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

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

The Company has applied the principles and complied with all the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules for the six months ended June 30, 2008.

INVESTOR RELATIONS

FINANCIAL CALENDAR

Announcement of 2008 Interim Results	August 21, 2008
Closure of register of members	September 25-30, 2008 (both dates inclusive)
Payment of 2008 interim dividend	October 2008
Announcement of 2008 Annual Results	March 2009

DIRECTORS

The directors of the Company as at the date of the announcement of the 2008 Interim Results are:

Executive Directors:

Li Tzar Kai, Richard (*Chairman*)
Alexander Anthony Arena (*Group Managing Director*)
Peter Anthony Allen
Chung Cho Yee, Mico
Lee Chi Hong, Robert

Non-Executive Directors:

Sir David Ford, KBE, LVO
Lu Yimin
Zuo Xunsheng (*Deputy Chairman*)
Li Fushen

Independent Non-Executive Directors:

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

INTERIM REPORT 2008

This Interim Report 2008 in both English and Chinese is now available in printed form and on the Company's website (www.pccw.com).

Shareholders who:

- received the Interim Report 2008 by electronic means may request a printed copy, or
- received the Interim Report 2008 in either English or Chinese may request a printed copy of the other language version

by writing to the Company's Share Registrars at:

PCCW Limited
c/o Share Registrars
Computershare Hong Kong Investor Services Limited
Investor Communications Centre
Rooms 1806-1807, 18th Floor, Hopewell Centre
183 Queen's Road East, Wan Chai, Hong Kong
Fax: +852 2529 6087/+852 2865 0990
Email: hkinfo00008@computershare.com.hk

Shareholders who have chosen to receive the Interim Report 2008 by electronic means through the Company's website and who, for any reason, have difficulty in receiving or gaining access to the Interim Report 2008 will promptly, on written request to the Company's Share Registrars – Computershare Hong Kong Investor Services Limited, be sent the Interim Report 2008 in printed form, free of charge.

Shareholders may change their choice of language or means of receipt of the Company's corporate communications at any time, free of charge, by notice in writing to the Company's Share Registrars.

LISTINGS

The Company's shares are listed on The Stock Exchange of Hong Kong Limited and traded in the form of American Depositary Receipts ("ADRs") on the Pink OTC Markets in the United States. Each ADR represents 10 ordinary shares of the Company. Certain United States Dollar guaranteed notes issued by wholly-owned subsidiaries of the Company are listed on the Luxembourg Stock Exchange and the Singapore Exchange Securities Trading Limited.

Additional information and specific inquiries concerning the Company's ADRs should be directed to the Company's ADR Depository at the address given on this page.

Other inquiries regarding the Company should be addressed to Investor Relations at the address given on this page.

STOCK CODES

The Stock Exchange of Hong Kong Limited	0008
Reuters	0008.HK
Bloomberg	8 HK
ADRs	PCCWY

INDEX CONSTITUENT

MSCI Index Series	FTSE4Good Global Index
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SHARE INFORMATION

Board lot:	1,000 shares
Issued shares as at June 30, 2008:	6,771,658,154 shares

DIVIDENDS

Interim dividend per share for the six months ended June 30, 2008:
7 HK cents per ordinary share

REGISTRARS

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East, Wan Chai, Hong Kong
Telephone: +852 2862 8555 Fax: +852 2529 6087
Email: hkinfo@computershare.com.hk

ADR DEPOSITARY

Citibank, N.A.
American Depositary Receipts
388 Greenwich Street, New York, NY 10013, USA
Toll free number: +1 877 CITIADR (248 4237)
Telephone: +1 781 575 4555
Email: citibank@shareholders-online.com

COMPANY SECRETARY

Philana WY Poon

REGISTERED OFFICE

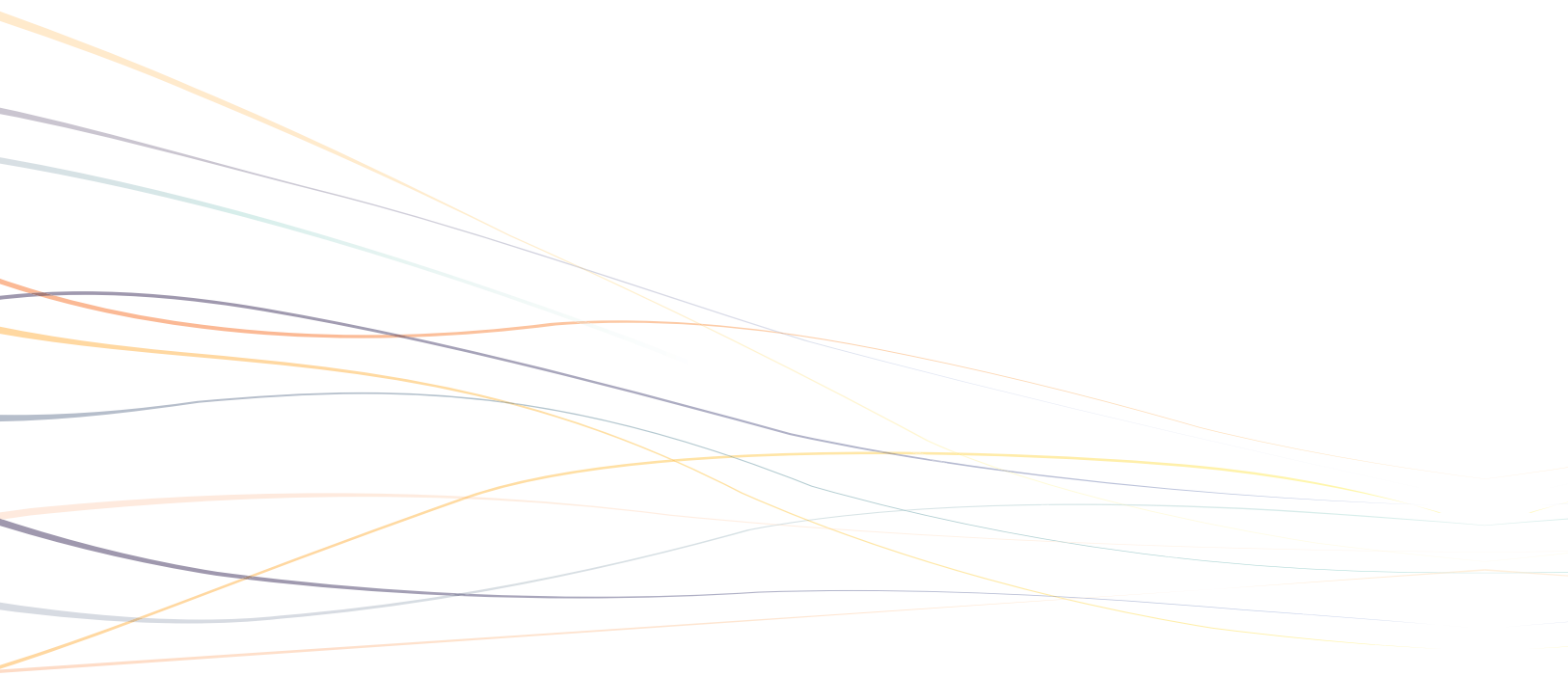
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PCCW shares are listed on The Stock Exchange of Hong Kong Limited (SEHK: 0008)
and traded in the form of American Depositary Receipts on the Pink OTC Markets in the US (Ticker: PCCWY).

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