PCCW®

Annual Report 2008 | Stock Code: 0008

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CORPORATE PROFILE

PCCW Limited (PCCW) is the holding company of HKT Group Holdings Limited (HKT), Hong Kong's premier telecommunications provider and a world-class player in Information and Communications Technologies. PCCW also holds a majority interest in Pacific Century Premium Developments Limited, and overseas investments including the wholly-owned UK Broadband Limited.

As the provider of Hong Kong's first quadruple-play experience, PCCW/HKT offers a range of innovative media content and services across four platforms – fixed-line, broadband Internet access, TV and mobile. In addition, the Group meets the sophisticated needs of the local and 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 17,000 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).

SIGNIFICANT EVENTS IN 2008

FEBRUARY

PCCW Global signs an agreement to interconnect with du – the second telecoms service provider in the United Arab Emirates – to meet rising demand for international connectivity in the Middle East and other regions.

Additional features are introduced to the PCCW eye Multimedia Service, including a facility to review Octopus card transactions and a video-calling option.

MARCH

The Hong Kong Government launches its public Wi-Fi service, which is powered by PCCW. PCCW later provides free Wi-Fi at public housing estates as part of our contribution to Hong Kong's technology excellence.

MAY

PCCW announces a reorganization of the Group's telecoms services, media and IT solutions businesses into a new company, HKT Group Holdings Limited.

JUNE

The Computerworld Hong Kong 2008 Awards scheme names PCCW as Hong Kong Technology Company of the Year, the first such title granted by the IT industry publisher. Six other awards are conferred on various PCCW business units and services.

JULY

PCCW is the official host sponsor of Broadband World Forum Asia 2008, a four-day conference and exhibition in Hong Kong that attracts thousands of industry figures from around the world.

AUGUST

PCCW serves as the major telecoms provider to the Hong Kong-hosted equestrian events of the Beijing 2008 Olympic Games, while PCCW Global and China Network Communications Group Corporation – now merged with China Unicom – enable broadcasters to send high-quality TV coverage of the events to audiences all over the world.

SEPTEMBER

PCCW Solutions wins a long-term renewable contract to build, design and run a large-scale Internet data center for a major global Internet search engine player.

OCTOBER

PCCW discontinues the auction process for the proposed sale of up to a 45% interest in HKT Group Holdings Limited.

NOVEMBER

A proposal is received from PCCW's two major shareholders to privatize the Company.

PCCW delivers Hong Kong's first 3G network deployment based on CDMA2000 technology. Mainland China and other visitors can now use their home-based phones to roam onto our network.

The Group's telecoms services, media and IT solutions businesses now operate under HKT Group Holdings Limited, following completion of the corporate reorganization.

DECEMBER

Produced in-house by now TV, the now Hong Kong channel makes its debut with programming tailored to Hong Kong viewers.

PCCW successfully demonstrates the combination of new HSPA+ mobile technology and PCCW NextGen optical-fiber network in creating an ultra-fast data superhighway.

A Hong Kong Transport Department contract for provision of an Area Traffic Control System is awarded to PCCW.

KEY FIGURES

FINANCIAL HIGHLIGHTS

For the year ended December 31, 2008
In HK$ million (except for per share data)

	2008	2007
Turnover		
Core revenue*	**22,008**	20,581
PCPD	**9,943**	3,134
	31,951	23,715
Cost of sales	**(17,850)**	(10,538)
General and administrative expenses	**(10,005)**	(9,144)
Other losses, net	**(464)**	(3)
Losses on property, plant and equipment	**(103)**	(7)
Finance costs, net	**(1,276)**	(1,229)
Share of results of associates and jointly controlled companies	**11**	13
Impairment losses on interests in jointly controlled companies	**(31)**	–
Profit before income tax	**2,233**	2,807
Income tax	**(711)**	(970)
Profit for the year	**1,522**	1,837
Attributable to:		
Equity holders of the Company	**1,272**	1,503
Minority interests	**250**	334
Earnings per share (in HK cents)		
Basic	**18.78**	22.21
Diluted	**18.77**	22.18
Dividends per share (in HK cents)		
Interim dividend	**7.00**	6.50
Final dividend proposed after the balance sheet date	**–**	13.50
Special dividend declared after the balance sheet date	**130.00**	–
EBITDA[1]		
Core EBITDA*	**6,714**	6,506
PCPD	**1,268**	790
	7,982	7,296

OPERATION HIGHLIGHTS

	As at Dec 31, 2008	As at Dec 31, 2007	Better/ (Worse) y-o-y
Exchange lines in service ('000)	**2,603**	2,590	1%
Business lines ('000)	**1,195**	1,183	1%
Residential lines ('000)	**1,408**	1,407	0%
Traditional data (Exit Gbps)	**927**	723	28%
International Private Leased Circuit bandwidth (Exit Mbps)	**78,202**	44,144	77%
Total broadband access lines ('000)	**1,302**	1,237	5%
now TV			
Installed base ('000)	**953**	882	8%
Paying base ('000)	**686**	628	9%
Mobile subscribers			
3G post-paid ('000)	**414**	206	101%
2G post-paid ('000)	**440**	460	(4)%
2G prepaid ('000)	**459**	405	13%

*Note: Please refer to page 20. Note 1: Please refer to page 22.

STATEMENT FROM THE CHAIRMAN

After a long period of economic growth in Hong Kong, we are now operating in an environment made difficult by the global financial turmoil and the prospect of a prolonged international recession.

Since the last quarter of 2008 we have witnessed a marked slowdown in market activities, which exert considerable pressure on our businesses. Without any signs of the economy reversing the present downward trend, operators in Hong Kong's highly competitive telecommunications market are expected to be under continuous challenges in the year ahead.

Fortunately, we enter this period of uncertainty with a degree of financial and operational strength, as well as a distinctly strong brand, thanks to the efforts of a skilled and talented team that has produced a succession of innovative services for our customers in both the private and public sectors in Hong Kong and overseas.

Furthermore, I am pleased to report that we completed a corporate restructuring last year. The Group's operational efficiencies will improve as a result of this restructuring, which has grouped our telecoms services, media and IT solutions businesses under a new company, HKT Group Holdings Limited.

PCCW is Hong Kong's premier telecommunications provider. Going forward, we will continue to work hard to consolidate our leadership position in the industry via enhanced innovation and service quality, and with optimization of operating and capital expenditures. To achieve these goals, all staff must work together with determination to continue to provide our customers with PCCW's high quality products and services.

These are challenging times, and we look forward to the unwavering support of our shareholders and customers.

Richard Li
Chairman
April 22, 2009

STATEMENT FROM THE GROUP MANAGING DIRECTOR

Year 2008 was shaped by a succession of global events and developments, which culminated in a financial crisis that has left no industry unscathed.

PCCW began the year from a position of strength, following growth and consolidation based on our unique quadruple-play capability, by which infotainment and services are delivered via fixed lines, broadband Internet, TV and mobile devices.

The Company had benefited from a relatively long spell of economic buoyancy that prompted private and public sector investment in Information & Communications Technologies (ICT). However, the momentum generated by these upbeat conditions could only be maintained for the greater part of 2008 until the sharp turn of events brought about by the financial crisis.

The Company began to experience a noticeable impact on its businesses in the last quarter. Management introduced precautionary cost control measures to strengthen the financial integrity of the Company, while making sure that service quality was not compromised. This has been possible because the Company's continued substantial investment in technology and infrastructure in previous years has provided a sound base from which to weather the current stormy conditions.

Towards the end of 2008, we completed a reorganization of the Group's businesses that was announced in the middle of the year. A new company, HKT Group Holdings Limited (HKT), was incorporated to hold the Group's telecoms services, media and IT solutions businesses. PCCW received proposals from several bidders for the acquisition of a minority interest in HKT, but the market downturn had significantly impacted the offers received and the Company discontinued the sale process.

Despite the difficult environment, we remain committed to meeting the needs of our local and international customers with our high standard of service. Last year, we improved a number of services and demonstrated resilience in our main lines of business.

INNOVATION TO MEET CONSUMER NEEDS

now TV extended its leadership in Hong Kong's pay-TV market during the year with about 953,000 subscribers by December 31, 2008. now TV appeals to the widest possible audience, thanks to the variety offered by more than 170 channels of local, Asian and international programming. One significant achievement in 2008 was the launch of the self-produced now Hong Kong channel, featuring a host of household-name personalities and programming tailored to discerning Hong Kong viewers. With five high-definition TV channels, now TV also maintains clear leadership of this segment of the market.

Previously exclusive to PCCW customers, our MOOV library of more than 130,000 music titles in digital audio or audio-visual format was made available to all Internet users last year.

Our fixed-line business maintained stability in 2008. New features and content continued to be added to the PCCW eye Multimedia Service to improve functionality and provide users with greater convenience. Its increasing popularity bodes well for further enhancement of this service to bolster business performance in the fixed-line segment.

HIGH-SPEED ACCESS & MOBILITY

Continued rollout of optical fiber last year enabled broadband customers to choose from speeds of up to 1,000 Mbps, which is now available to more than two-thirds of Hong Kong's households. PCCW has made Internet access without wires available in the home, the workplace and via more than 5,000 Wi-Fi hotspots all over Hong Kong. Taking that wireless freedom a stage further in 2008, the Company became the first Wi-Fi player in Asia to offer a public service on rolling stock by providing connectivity throughout 11 Airport Express trains.

In December, PCCW demonstrated the combination of new HSPA+ mobile technology with our PCCW NextGen optical-fiber network in creating an ultra-fast data superhighway. This "HSPA+Fiber" concept means the current maximum mobile download speed of 7.2 Mbps will be tripled when 21 Mbps HSPA+ devices become available later this year.

To provide a greater diversity of mobile services, PCCW delivered Hong Kong's first 3G network deployment based on CDMA2000 technology. Visitors from mainland China and other parts of the world such as Japan, Korea and the US can now use their home-based phones to roam onto PCCW's network. This move was also in line with the Hong Kong Government's objective to strengthen Hong Kong's strategic position as a world city and gateway between mainland China and the rest of the world.

In early 2009, PCCW joined forces with another operator to make a successful bid for a 4G license. This will enable the deployment of next generation Broadband Wireless Access (BWA) technologies and the offer of higher-speed multimedia services, which can be developed at reasonable costs on the back of PCCW's existing technology platform and expertise.

BUSINESS & IT SOLUTIONS

In the commercial sector, we continued to develop innovative applications to grow the number of broadband lines and average revenue per user (ARPU). Our integrated fixed/mobile solution, branded one communications, provides a capital expenditure-free alternative to traditional business communications – an attractive proposition in a difficult economic environment.

The customer premises equipment business had been strong until orders began to slow down in the last quarter. Meanwhile, PCCW is helping banks meet a new regulatory requirement to record their sales of structured financial products with our cost-effective, network-based Secure Recording Solution. This has already been rolled out to a number of local institutions and is arousing interest among other industries.

A revolutionary communications system based on fixed-mobile integration technology also began to establish a presence in Hong Kong hotels in 2008. With one of the world's first mobile concierge services, guests equipped with a mobile phone supplied by the hotel will not miss calls to their rooms while out and about.

PCCW Teleservices provides multinational corporations with customer-contact management services from operations centers in Hong Kong, mainland China, Taiwan and the Philippines. In 2008, the business continued to grow by winning significant contracts to handle English language-based work for existing clients.

Our IT flagship, PCCW Solutions, last year won a contract to build, design and run an Internet data center (IDC) covering 40,000 square feet to handle the regional needs of a major global Internet player. The win was the largest of a number of IDC deals clinched in 2008, with other customers including US-based Rackspace Hosting, the Hong Kong Government and the Airport Authority Hong Kong.

The relatively young Advertising & Interactive Services division continues to deliver innovative advertising, marketing and sales solutions built on synergies produced by the Company's quadruple-play capability, and serves as a major reseller for Internet partners.

INTERNATIONAL OPPORTUNITIES

PCCW Global enjoyed healthy revenue growth last year by offering a portfolio of advanced data solutions made available over a network that reaches 1,000 cities and 80 countries. In addition, the volume of voice traffic the division carried for service providers worldwide also increased substantially from 2007.

Last summer, PCCW Global worked closely with PCCW's strategic partner, China Network Communications Group Corporation – now merged with China Unicom – to enable the world's broadcasting community to carry high-quality TV coverage of the Beijing 2008 Olympic Games equestrian events to viewers all over the globe. This acted as a showcase for PCCW Global's international broadcasting solutions.

PCCW has developed exceptional homegrown expertise to run IPTV and telecoms infrastructure projects. Combining this technology excellence with our media, enterprise service and content marketing experience, we offer end-to-end solutions to operators and governments in other parts of the world in our effort to create additional revenue sources.

PROPERTY DEVELOPMENT

PCCW's majority-owned subsidiary, Pacific Century Premium Developments Limited (PCPD), began handover to purchasers of luxury residential units at Bel-Air No.8 around mid-November 2008. The houses at Villa Bel-Air are expected to be released to the market gradually over the next two years. The 155 units at ONE Pacific Heights, located west of Central, were all sold following launch in June 2008. Completion of this 39-storey project is scheduled for the second half of 2009.

In mainland China, PCPD's luxury residential development in Beijing's Chaoyang district is scheduled for completion in 2010. Located next to our Pacific Century Place premium-grade investment property, the complex will produce about 210 luxury apartments. At the same time, steady progress is being made on our long-term projects to develop world-class all-season luxury resorts at Hokkaido in Japan and Thai Muang Beach, Phang-nga in southern Thailand.

CORPORATE SOCIAL RESPONSIBILITY

PCCW has set out a Corporate Social Responsibility (CSR) Policy governing five core areas: community investment, the environment, our employees, supplier chain management, and corporate governance.

Last year, PCCW and staff donated HK$6 million for the rescue and rehabilitation of Sichuan earthquake victims. We conducted the first carbon footprint audit of our main source of greenhouse gas emissions in order to develop reduction targets.

We place great importance on our employees, offering a wide range of training and development programs. Good governance serves to uphold a high standard of ethics, transparency, responsibility and integrity in all aspects of our business. Our internal governance policies and procedures are complementary to the CSR Policy.

CONCLUSION

Last November, the Company received a proposal from its two major shareholders to privatize PCCW. This was approved by the requisite majority of independent shareholders at the Court Meeting and the requisite majority of shareholders at the Extraordinary General Meeting in February 2009. On April 22, 2009, the Court of Appeal overturned the judgment of the Court of First Instance of the High Court to sanction the proposal.

I would like to stress that the nature of PCCW's ownership – whether public or private – has no effect on the way we provide high-quality services. We will remain committed to maintaining our long-held position as Hong Kong's premier telecommunications service provider.

Meanwhile, we must tackle 2009 with caution. We must manage all our costs prudently and responsibly, including judicious prioritization of capital expenditures. Management and the rest of the staff will work together to ensure our operations are run as efficiently as possible and customers receive a pleasant experience when dealing with us. In this difficult and competitive environment, retention of customers is a focus.

I am pleased that the reorganization exercise has provided us with new impetus to tighten our focus on the needs of our customers and provide innovative, premium quality products and excellent customer service. I also believe our inherent strengths should stand us in good stead in the current recession.

Alex Arena
Group Managing Director
April 22, 2009

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

LI Tzar Kai, Richard
Chairman

Mr Li, aged 42, was appointed an Executive Director and Chairman of PCCW in August 1999. He is Chairman of PCCW's Executive Committee. He is also Chairman and Chief Executive of the Pacific Century Group, Chairman of Pacific Century Premium Developments Limited (PCPD), Chairman of PCPD's Executive Committee and Chairman of Singapore-based Pacific Century Regional Developments Limited.

Mr Li is a Non-Executive Director of The Bank of East Asia, Limited. He is also a representative of Hong Kong, China to the Asia Pacific Economic Co-operation (APEC) Business Advisory Council, a member of the Center for Strategic and International Studies' International Councillors' Group in Washington, D.C., and a member of the Global Information Infrastructure Commission.

Alexander Anthony ARENA
Group Managing Director

Mr Arena, aged 58, was appointed an Executive Director of PCCW in August 1999. He is Group Managing Director of PCCW, Deputy Chairman of PCCW's Executive Committee, a Director of Pacific Century Regional Developments Limited, and Deputy Chairman, an Executive Director and Executive Committee member of Pacific Century Premium Developments Limited.

Prior to joining the Pacific Century Group in 1998, Mr Arena was a Special Policy Adviser to the Hong Kong Government from 1997 to 1998. From 1993 to 1997, he was Director-General of Telecommunications at the Office of the Telecommunications Authority (OFTA) of Hong Kong, as well as a member of the Broadcasting Authority of Hong Kong.

Before taking up his post at OFTA, Mr Arena was appointed by the Hong Kong Government to plan a reform program for the liberalization of Hong Kong's telecommunications sector. Prior to his appointment to the Hong Kong Government, he served as an inaugural member of the Australian Telecommunications Authority for four years. Mr Arena has led an extensive career in public administration, specializing in high technology and infrastructure industries. From a practicing radio/communications engineer to a public policy maker, his experience spans such diverse areas as commercialization of government-owned business enterprises and deregulation in the aviation, transport, telecommunications and postal industries.

Mr Arena graduated from University of New South Wales, Australia, with a bachelor's degree in electrical engineering. He completed an MBA at Melbourne University, Australia, and is a Fellow of the Hong Kong Institution of Engineers.

Mr Arena was an Executive Director and the Chairman of SUNDAY Communications Limited (listing of its shares on The Stock Exchange of Hong Kong Limited was withdrawn with effect from December 20, 2006 and the company was subsequently dissolved on March 30, 2007) from July 2005 to December 2006.

Peter Anthony ALLEN
Executive Director

Mr Allen, aged 53, was appointed an Executive Director of PCCW in August 1999. He is Director of Corporate Development of PCCW, Group Managing Director of Pacific Century Regional Developments Limited and an Executive Director and Chief Financial Officer of the Pacific Century Group.

Mr Allen joined KPMG in 1976 before taking up an appointment at Occidental Petroleum Corporation in 1980. In 1983, he joined Schlumberger Limited and worked in various countries holding key management positions. In 1989, he moved to Singapore as Regional Financial Director of the Vestey Group.

Mr Allen joined Bousteadco Singapore Limited as Group Operations Controller in 1992 before taking up an appointment with Morgan Grenfell Investment Management (Asia) Limited as a Director and Chief Operating Officer in 1995. He joined the Pacific Century Group in 1997.

Mr Allen was educated in England and graduated from Sussex University with a degree in economics. He is a Fellow of both the Institute of Chartered Accountants in England and Wales and the Institute of Certified Public Accountants in Singapore.

CHUNG Cho Yee, Mico
Executive Director

Mr Chung, aged 48, was appointed a Director of PCCW in November 1996 responsible for merger and acquisition activities. He is a member of PCCW's Executive Committee. He joined the Pacific Century Group in March 1999. He is also a qualified solicitor.

Mr Chung graduated from University College, University of London, England, with a law degree in 1983. He qualified as a solicitor in Hong Kong in 1986, after which he worked in the commercial department of a law firm in Hong Kong for two years. He joined the corporate finance department of Standard Chartered Asia Limited - the investment banking arm of Standard Chartered Bank - in 1988. He became a Director and General Manager of Bond Corporation International Ltd in 1990, after which he joined China Strategic Holdings Ltd in January 1992.

Mr Chung is Non-Executive Chairman and Non-Executive Director of Capital Strategic Investment Limited and Independent Non-Executive Director of HKC (Holdings) Limited. He was an Independent Non-Executive Director of CIAM Group Limited (formerly known as E2-Capital (Holdings) Limited) between March 9, 2001 and May 31, 2008.

LEE Chi Hong, Robert

Executive Director

Mr Lee, aged 57, was appointed an Executive Director of PCCW in September 2002. He is a member of PCCW's Executive Committee. He is also an Executive Director and Chief Executive Officer of Pacific Century Premium Developments Limited (PCPD) and a member of PCPD's Executive Committee.

Mr Lee was previously an Executive Director of Sino Land Company Limited (Sino Land), at which his responsibilities included sales, finance, acquisitions, investor relations, marketing and property management. Prior to joining Sino Land, Mr Lee was a senior partner at Deacons in Hong Kong, where he specialized in banking, property development, corporate finance and dispute resolution in Hong Kong and mainland China. Before that, he was a solicitor with the London firm Pritchard Englefield & Tobin (now Pritchard Englefield). He was enrolled as a solicitor in the United Kingdom in 1979 and admitted as a solicitor in Hong Kong in 1980. Mr Lee became a Notary Public in Hong Kong in 1991.

Mr Lee has also served as a member of the panel of arbitrators of the China International Economic and Trade Arbitration Commission of the China Council for the Promotion of International Trade in Beijing.

He graduated from Cornell University in the United States in 1975 with a bachelor's degree in political science.

NON-EXECUTIVE DIRECTORS

Sir David FORD, KBE, LVO

Non-Executive Director

Sir David, aged 74, was appointed a Non-Executive Director of PCCW in June 2002. He started his working life as an army officer in the Royal Artillery and served in five continents. During his last five years with the army, he served with the Commando Brigade and saw active service in Aden and Borneo.

Sir David left the army in 1972 and subsequently spent more than 20 years in Hong Kong, holding a number of appointments as a senior civil servant in the Hong Kong Government and one appointment in the Northern Ireland Office.

He attended the Royal College of Defence Studies in 1982. He was Chief Secretary and Deputy Governor of the Hong Kong Government from 1986 to 1993, before becoming the Hong Kong Commissioner in London until the change of sovereignty in Hong Kong in 1997.

LU Yimin

Non-Executive Director

Mr Lu, aged 45, became a Non-Executive Director of PCCW in May 2008. He is a member of the Nomination Committee and Regulatory Compliance Committee of the Board.

Mr Lu is an Executive Director and President of China Unicom (Hong Kong) Limited. He is Vice Chairman and President of China United Network Communications Group Company Limited. He is also a Director and President of China United Network Communications Corporation Limited.

Mr Lu joined China Network Communications Group Corporation (CNC) in December 2007, serving as senior management. Prior to joining CNC, Mr Lu was a member of the Secretary Bureau of the General Office of the Chinese Communist Party Central Committee, serving as the Deputy Director and the Director of the Information Processing Office since 1992, Secretary at deputy director general level since 2001 and Secretary at director general level since 2005.

Mr Lu is a professor level senior engineer and has extensive experience in government administration and business management. He graduated from Shanghai Jiao Tong University in 1985 with a bachelor's degree in computer science and then was awarded a master's degree in public administration by the John F. Kennedy School of Government at Harvard University in the United States.

ZUO Xunsheng

Deputy Chairman and Non-Executive Director

Mr Zuo, aged 58, became a Deputy Chairman and Non-Executive Director of PCCW in July 2007. He is a member of the Remuneration Committee and Executive Committee of the Board.

Mr Zuo is an Executive Director and a Senior Vice President of China Unicom (Hong Kong) Limited. He is Vice Chairman and Vice President of China United Network Communications Group Company Limited. He is also a Director and Senior Vice President of China United Network Communications Corporation Limited.

Mr Zuo joined China Network Communications Group Corporation as Vice President in April 2002, and served as Senior Vice President of China Netcom Group Corporation (Hong Kong) Limited (CNC HK) since July 2004, Chief Operating Officer of CNC HK since December 2005, an Executive Director and Chief Executive Officer of CNC HK since May 2006 and Chairman of CNC HK since May 2008.

Mr Zuo graduated from Guanghua School of Management of Peking University with an EMBA degree in 2004. From July 1993 to October 1997, Mr Zuo served as Director of the former Bureau of Telecommunications of Jinan City, Shandong Province. From October 1997 to May 2000, he served as Director of the former Posts and Telecommunications Bureau of Shandong Province. He was President of the former Shandong Telecommunications Company from May 2000 to April 2002. Mr Zuo is well experienced in telecommunications operations and has rich management experience.

LI Fushen

Non-Executive Director

Mr Li, aged 46, became a Non-Executive Director of PCCW in July 2007.

Mr Li is a Senior Vice President of China Unicom (Hong Kong) Limited. He is Vice President of China United Network Communications Group Company Limited. He is also a Director and Senior Vice President of China United Network Communications Corporation Limited.

He served as an Executive Director of China Netcom Group Corporation (Hong Kong) Limited (CNC HK) since January 2007 and as Chief Financial Officer of CNC HK since September 2005. He served as Financial Controller of CNC HK from July 2004 to August 2005. He served as Joint Company Secretary of CNC HK from December 2006 to March 2008. Since October 2005, he has served as Chief Accountant of China Network Communications Group Corporation (CNC). From October 2003 to August 2005, he served as General Manager of the Finance Department of CNC. From November 2001 to October 2003, he served as Deputy General Manager of Jilin Communications Company and Deputy General Manager of the former Jilin Provincial Telecommunications Company.

Mr Li graduated from the Australian National University with a master's degree in management, and from the Jilin Engineering Institute with a degree in engineering management in June 1988.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor CHANG Hsin-kang,
FREng, GBS, JP

Independent Non-Executive Director

Professor Chang, aged 68, was appointed a Director of PCCW in October 2000. He is a member of the Audit Committee and the Regulatory Compliance Committee of the Board.

Professor Chang became a Tsinghua University (Honorary Professor and) Wei Lun Senior Visiting Scholar in September 2007, and (Honorary Professor and) Yeh-Lu Xun Chair Professor at Peking University in February 2008. He was President and University Professor of City University of Hong Kong from 1996 to 2007. Prior to that, he was Dean of the School of Engineering at the University of Pittsburgh in the United States from 1994 to 1996, Founding Dean of the School of Engineering at Hong Kong University of Science and Technology from 1990 to 1994 and Chairperson of the Department of Biomedical Engineering at the University of Southern California in the United States from 1985 to 1990.

Professor Chang is a Foreign Member of the Royal Academy of Engineering of the United Kingdom and Chevalier dans L'Ordre National de la Légion d'Honneur of France. He was appointed Justice of the Peace in July 1999 and also awarded the Gold Bauhinia Star by the Hong Kong Government in July 2002.

He obtained his bachelor's degree in civil engineering from the National Taiwan University, a master's degree in structural engineering from Stanford University in the United States and a doctorate in fluid mechanics and biomedical engineering from Northwestern University in the United States.

Professor Chang is an Independent Non-Executive Director of Hon Kwok Land Investment Company, Limited, Brightoil Petroleum (Holdings) Limited, and Nanyang Commercial Bank, Ltd.

Dr The Hon Sir David LI Kwok Po, GBM, GBS, OBE, JP
Independent Non-Executive Director
Sir David, aged 70, was appointed a Director of PCCW in October 2000. He was previously a Non-Executive Deputy Chairman of the former Hong Kong-listed Cable & Wireless HKT Limited and served as a Director from November 1987 to August 2000. He is a member of the Audit Committee, Remuneration Committee, Nomination Committee and Regulatory Compliance Committee of the Board.

Sir David is Chairman and Chief Executive of The Bank of East Asia, Limited. He is also a Director of China Overseas Land & Investment Limited, COSCO Pacific Limited, Criteria CaixaCorp, S.A., Guangdong Investment Limited, The Hong Kong and China Gas Company Limited, The Hongkong and Shanghai Hotels, Limited, Hong Kong Interbank Clearing Limited, The Hong Kong Mortgage Corporation Limited, San Miguel Brewery Hong Kong Limited, SCMP Group Limited, Vitasoy International Holdings Limited, AFFIN Holdings Berhad and IMG Worldwide Inc. He was a director of AviChina Industry & Technology Company Limited, China Merchants China Direct Investments Limited and Dow Jones & Company, Inc.

Sir David is a member of the Legislative Council of Hong Kong. He is Chairman of The Chinese Banks' Association, Limited and The Hong Kong Management Association. Sir David is also a member of the Banking Advisory Committee and the Council of the Treasury Markets Association.

Sir Roger LOBO, CBE, LLD, JP
Independent Non-Executive Director
Sir Roger, aged 85, was appointed a Director of PCCW in August 1999. He is Chairman of the Regulatory Compliance Committee and a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Board.

He is also a Director of several organizations, including Shun Tak Holdings Limited, Johnson & Johnson (HK) Ltd, Kjeldsen & Co (HK) Ltd, Pictet (Asia) Ltd and Melco International Development Limited.

Sir Roger's extensive record of public service includes membership of the Hong Kong Housing Authority, the Urban Council, the Executive Council and serving as a senior member of the Legislative Council. Sir Roger also served as Commissioner of the Civil Aid Service, Chairman of the Hong Kong Broadcasting Authority and Chairman of the Advisory Committee on Post-retirement Employment.

He currently serves as Chairman (Board of Trustees) of the Vision 2047 Foundation, Vice Patron of the Community Chest of Hong Kong, the Society for the Rehabilitation of Offenders and as Advisory Board Member of the Hong Kong Aids Foundation.

Sir Roger has received several awards and honors from the British Crown and the Vatican.

Aman MEHTA
Independent Non-Executive Director
Mr Mehta, aged 62, became an Independent Non-Executive Director of PCCW in February 2004 and is Chairman of the Audit Committee and the Nomination Committee of the Board.

He joined the Board following a distinguished career in the international banking community. Mr Mehta held the position of Chief Executive Officer of The Hongkong and Shanghai Banking Corporation Limited (HSBC) until December 2003, when he retired.

Born in India in 1946, Mr Mehta joined HSBC group in Bombay in 1967. After a number of assignments throughout HSBC group, he was appointed Manager – Corporate Planning at HSBC's headquarters in Hong Kong in 1985. After a three-year posting to Riyadh in Saudi Arabia, he was appointed Group General Manager in 1991, and General Manager – International the following year, with responsibility for overseas subsidiaries. He subsequently held senior positions in the United States, overseeing HSBC group companies in the Americas and later becoming responsible for HSBC's operations in the Middle East.

In 1998, Mr Mehta was reappointed General Manager – International, after which he became Executive Director International. In 1999, he was appointed Chief Executive Officer, a position he held until retirement.

Following his retirement in December 2003, Mr Mehta took up residence in New Delhi. He is an Independent Director on the board of several public companies and institutions in India and internationally. He is an Independent Non-Executive Director of Vedanta Resources Plc in the United Kingdom, Tata Consultancy Services Limited, Godrej Consumer Products Ltd, Jet Airways Ltd and Wockhardt Ltd in Mumbai, India; Max India Ltd, Cairn India Limited and Emaar MGF Land Limited in New Delhi, India. He is also an Independent Director on the Supervisory Board of ING Group N.V., a Netherlands company.

Mr Mehta is also a member of the Governing Board of Indian School of Business, Hyderabad, and a member of the Advisory Panel of Prudential Financial Inc in the United States.

The Hon Raymond George Hardenbergh SEITZ

Independent Non-Executive Director

Mr Seitz, aged 68, is an Independent Non-Executive Director of PCCW. He is Chairman of the Remuneration Committee and a member of the Nomination Committee of the Board. He was a Non-Executive Director of PCCW from October 2000 and was redesignated as an Independent Non-Executive Director in February 2005. He is a Non-Executive Chairman and a member of the Special Committee of Sun-Times Media Group, Inc. which is listed on The New York Stock Exchange, Inc.

Mr Seitz was Vice-Chairman of Lehman Brothers International from April 1995 to April 2003 and was United States Ambassador in Great Britain from 1991 to 1994. Prior to that, Mr Seitz acted as the United States Assistant Secretary of State for Europe from 1989 to 1991 and Minister at the United States Embassy in London from 1984 to 1989.

CORPORATE GOVERNANCE REPORT

PCCW Limited ("PCCW" or 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.

We have adopted a Corporate Responsibility Policy and a Corporate Social Responsibility Policy that apply to all employees, including directors and officers, throughout the Company and its subsidiaries (collectively the "Group").

The Corporate Responsibility Policy sets out standards for the way in which employees should conduct our business in the following areas: Civic responsibilities, equal opportunities, preservation of company information and property, privacy of personal data, prevention of bribery, conflicts of interest and ensuring health and safety at work. This policy also describes procedures to enable employees to raise concerns with management and directors on a confidential basis.

The Corporate Social Responsibility Policy sets out standards for the way in which we should conduct our business to minimize negative impact on society and the environment.

CORPORATE GOVERNANCE PRACTICES

PCCW has applied the principles and complied with all the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended December 31, 2008, except that the Chairman of the independent board committee was unable to attend the Company's court meeting held on December 30, 2008 (which was required under the Code provision E.1.2) as he had another engagement overseas. However, this meeting was adjourned without any substantive discussion on the proposed resolution.

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 Code, namely the PCCW Code of Conduct for Securities Transactions by Directors, Senior Management and Nominated Persons (the "PCCW Code") in terms no less exacting than the required standard indicated by the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

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 annual report.

The directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company and its associated corporations are disclosed in the Report of the Directors on pages 30 to 47 of this annual report.

BOARD OF DIRECTORS

The board of directors of PCCW (the "Board") is responsible for the management of the Company. Key responsibilities include formulation of the overall strategies of the Group, the setting of management targets and supervision of management performance. The Board confines itself to making broad policy decisions and exercising a number of reserved powers as mentioned below, delegating responsibility for more detailed considerations to the Executive Committee under the leadership of the Chairman of PCCW:

- those functions and matters as set out in the terms of reference of various committees (as amended from time to time), on which Board approval must be sought from time to time;
- those functions and matters in which Board approval must be sought in accordance with the Group's internal policy as amended from time to time;
- consideration and approval of financial statements in interim and annual reports, announcements and press releases of interim and annual results;
- consideration of dividend policy and dividend amounts; and
- monitoring the corporate governance of the Group in compliance with relevant rules and regulations.

The Chairman of PCCW is Li Tzar Kai, Richard and the Group Managing Director is Alexander Anthony Arena. The role of the Chairman is separate from that of the Group Managing Director. The Chairman is responsible for overseeing the function of the Board while the Group Managing Director is responsible for managing the Group's business.

All directors have full and timely access to all relevant information, including regular reports from the Board committees and briefings on significant legal, regulatory or accounting issues affecting the Group. Directors may take independent professional advice, which will be paid for by the Company.

BOARD OF DIRECTORS *(CONTINUED)*

The directors acknowledge their responsibility for preparing the financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and the Group and of the profit and cash flows of the Group for the year in accordance with Hong Kong Financial Reporting Standards, the Hong Kong Companies Ordinance and the Listing Rules. In preparing the financial statements for the year ended December 31, 2008, the directors have selected suitable accounting policies and applied them consistently; made judgements and estimates that are prudent and reasonable, stated the reasons for any significant departure from applicable accounting standards in Hong Kong and have prepared the financial statements on a going-concern basis. The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position, results of operations, cash flows and changes in equity of the Group. The statement of the auditor of the Company relating to their reporting responsibilities on the financial statements of the Company is set out in the Independent Auditor's Report on page 48 of this annual report.

As at the date of this report, the Board comprised 14 directors including five executive directors, four non-executive directors and five independent non-executive directors. Biographies of all the directors are set out on pages 8 to 12 of this annual report.

The Board held 11 meetings in 2008. The Chairman of the Board and the Chairman of each of the respective Board committees, namely the Audit Committee, the Nomination Committee and the Remuneration Committee, attended the annual general meeting and the extraordinary general meeting of the Company on May 29, 2008. The attendance of individual directors is set out in the table below.

The attendance of individual directors at Board and Board committee meetings during 2008 is set out in the following table:

	Meetings attended/eligible to attend[3]			
Directors	Board	Audit Committee	Nomination Committee	Remuneration Committee
Executive Directors				
Li Tzar Kai, Richard *(Chairman of the Board)*	11/11	–	2/2	–
Alexander Anthony Arena *(Group Managing Director)*	11/11	–	–	–
Peter Anthony Allen	11/11	–	–	–
Chung Cho Yee, Mico	10/11	–	–	–
Lee Chi Hong, Robert	11/11	–	–	–
Non-Executive Directors				
Sir David Ford	11/11	–	–	–
Lu Yimin[1]	8/8	–	–	–
Zuo Xunsheng *(Deputy Chairman of the Board)*	11/11	–	–	2/2
Li Fushen	11/11	–	–	–
Zhang Chunjiang[2]	2/2	–	1/1	–
Independent Non-Executive Directors				
Professor Chang Hsin-kang	10/11	3/3	–	–
Dr The Hon Sir David Li Kwok Po	10/11	3/3	0/2	2/2
Sir Roger Lobo	10/11	3/3	2/2	2/2
Aman Mehta *(Chairman of the Audit Committee & the Nomination Committee)*	10/11	3/3	2/2	–
The Hon Raymond George Hardenbergh Seitz *(Chairman of the Remuneration Committee)*	11/11	–	2/2	2/2

Remarks:

1. Appointed as a non-executive director of the Company and a member of the Nomination Committee and the Regulatory Compliance Committee of the Board all with effect from May 30, 2008.

2. Resigned as a non-executive director of the Company and ceased membership in the Nomination Committee and the Regulatory Compliance Committee of the Board all with effect from May 28, 2008.

3. Directors may attend meetings in person, by phone or through other means of electronic communication or by their alternate directors in accordance with the Company's Articles of Association.

BOARD OF DIRECTORS *(CONTINUED)*

More than one-third of the Board is made up of independent non-executive directors, exceeding the minimum number required under the Listing Rules. The Company has received annual written confirmation from each independent non-executive director to confirm his independence to the Company and accordingly, the Company considers that all the independent non-executive directors are independent in accordance with the terms of the independence guidelines set out in Rule 3.13 of the Listing Rules.

According to the Company's Articles of Association, any director so appointed by the Board to fill a casual vacancy or as an addition to the Board shall hold office only until the next following general meeting or the next annual general meeting of the Company respectively and shall then be eligible for re-election at that meeting. In addition, at each annual general meeting of the Company no less than one-third of the directors for the time being shall be subject to retirement by rotation at least once every three years. Apart from retirement by rotation pursuant to the Company's Articles of Association, each non-executive director has a term of three years. Therefore, no director will remain in office for a term of more than three years.

BOARD COMMITTEES

The Board has established the following committees with defined terms of reference. The terms of reference of the Remuneration Committee, the Nomination Committee and the Audit Committee are of no less exacting terms than those set out in the Code. To further reinforce its independence, the Audit Committee has been structured to include independent non-executive directors only and the Nomination Committee and the Remuneration Committee have been structured to include a majority of independent non-executive directors.

Executive Committee and Sub-committees

The Executive Committee of the Board operates as a general management committee with overall delegated authority from the Board. The Executive Committee determines group strategy, reviews trading performance, ensures adequate funding, examines major investments and monitors management performance. The Executive Committee reports through the Chairman to the Board.

Members of the Executive Committee are:
Li Tzar Kai, Richard *(Chairman)*
Alexander Anthony Arena *(Deputy Chairman)*
Chung Cho Yee, Mico
Lee Chi Hong, Robert
Zuo Xunsheng

Reporting to the Executive Committee are sub-committees comprising executive directors and members of senior management who oversee all key operating and functional areas within the Group. Each sub-committee has defined terms of reference covering its authority and duties, meets frequently and reports to the Executive Committee on a regular basis.

The *Finance and Management Committee* was established in August 2003 to take over the functions of the former Finance Committee. This committee is chaired by the Group Managing Director and meets on a regular basis to review management and strategic matters across the Group and to set overall financial objectives and policies.

The *Operational Committee* is chaired by the Group Managing Director and meets on a regular basis to direct all core telecommunications and business solutions operations.

The *Controls and Compliance Committee*, which reports to the Finance and Management Committee, was established in 2007. It comprises senior members of PCCW's Group Finance, Group Legal, Corporate Secretariat, Group Communications, Group Internal Audit and Risk Management departments. The committee reviews procedures for the preparation of PCCW's annual and interim reports and corporate policies of the Group from time to time to ensure compliance with the various rules and obligations imposed on it as a company listed on The Stock Exchange of Hong Kong Limited.

The *Social Responsibility Committee*, which reports to the Finance and Management Committee, was established in 2007. It comprises senior members of PCCW's Group Communications, Group Human Resources, Group Legal, Corporate Secretariat, Group Finance, Risk Management and Group Strategic Purchasing departments, as well as management from individual business units. The committee meets regularly to ensure PCCW operates in a manner that minimizes negative impact on society and the environment.

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

Remuneration Committee

The Remuneration Committee was formed in May 2003 with the primary objective of ensuring that PCCW is able to attract, retain and motivate high-caliber employees who will underpin the success of the Company and enhance the value of the Company to shareholders. The Remuneration Committee is responsible for overseeing the establishment and operation of formal and transparent procedures for developing the remuneration packages of directors. In addition, the committee provides effective supervision and administration of the Company's share option schemes, as well as other share incentive schemes. The committee's authority and duties are set out in written terms of reference that specify that the committee must comprise of at least three members, the majority of whom are independent non-executive directors. The terms of reference are available on PCCW's website.

Members of the Remuneration Committee are:
The Hon Raymond George Hardenbergh Seitz *(Chairman)*
Dr The Hon Sir David Li Kwok Po
Sir Roger Lobo
Zuo Xunsheng

The objective of the Company's remuneration policy is to maintain fair and competitive packages based on business requirements and industry practice. In order to determine the level of remuneration and fees paid to members of the Board, market rates and factors such as each director's workload, responsibility and job complexity are taken into account. The following factors are considered when determining the remuneration packages of directors:

- business requirements;
- individual performance and contribution to results;
- company performance;
- retention considerations and the potential of individuals;
- changes in relevant markets, including supply and demand fluctuations and changes in competitive conditions; and
- general economic situation.

During the review process, no individual director is involved in decisions relating to his own remuneration.

The Remuneration Committee met two times in 2008. The record of attendance of individual directors at the committee meetings is set out on page 14 of this annual report.

The following is a summary of work performed by the Remuneration Committee during 2008:

(i) review and approval of the incentive bonus payment for executive directors and key management;

(ii) review and recommendation of the non-executive directors' fees for 2008 to the Board for approval;

(iii) review of the incentive bonus scheme for executive directors and key management;

(iv) review of the significant human resources developments; and

(v) review of the terms of reference of the Remuneration Committee.

Details of emoluments of each director are set out in the Financial Statements on pages 84 to 88 of this annual report.

Nomination Committee

The Nomination Committee was formed in May 2003 to make recommendations to the Board on the appointment and re-appointment of directors, structure, size and composition of the Board to ensure fair and transparent procedures for the appointment and re-appointment of directors to the Board. The committee's authority and duties are set out in written terms of reference and are posted on PCCW's website.

The Company follows a formal, fair and transparent procedure for the appointment of new directors to the Board. The committee reviews the structure, size and composition of the Board, identifies suitably qualified candidates if necessary and makes recommendations to the Board for decisions.

The Nomination Committee comprises six members, the majority of whom are independent non-executive directors.

Members of the Nomination Committee are:
Aman Mehta *(Chairman)*
Dr The Hon Sir David Li Kwok Po
Li Tzar Kai, Richard
Sir Roger Lobo
Lu Yimin[1]
The Hon Raymond George Hardenbergh Seitz

The Nomination Committee met twice in 2008. The attendance of individual directors at committee meetings is set out on page 14 of this annual report.

Nomination Committee *(CONTINUED)*

The following is a summary of work performed by the Nomination Committee during 2008:

(i) recommendation to the Board for approval the list of retiring directors for re-election at the annual general meeting on May 29, 2008;

(ii) consideration and recommendation to the Board for approval the appointment of Lu Yimin as a non-executive director;

(iii) review of the independence of all independent non-executive directors;

(iv) review of the composition of the Board; and

(v) review of the terms of reference of the Nomination Committee.

Audit Committee

The Audit Committee of the Board is responsible for ensuring objectivity and credibility of financial reporting, and that the directors have exercised the care, diligence and skills prescribed by law when presenting results to shareholders. The committee's authority and duties are set out in written terms of reference and are posted on PCCW's website.

The Audit Committee's responsibilities include the appointment, compensation and supervision of external auditors. To ensure external auditors' independence, procedures have been adopted by the Audit Committee for the pre-approval of all audit and permitted non-audit services to be undertaken by the external auditors.

The Audit Committee has recommended to the Board the re-appointment of PricewaterhouseCoopers for conducting statutory audits for the financial year 2009 at the forthcoming annual general meeting.

Each member of the Audit Committee is an independent non-executive director. Members of the Audit Committee are:
Aman Mehta *(Chairman)*
Professor Chang Hsin-kang
Dr The Hon Sir David Li Kwok Po
Sir Roger Lobo

The Audit Committee is provided with sufficient resources to discharge its duties and meets regularly with management, internal auditors and external auditors and reviews their reports. During 2008, the committee met three times. The attendance of individual directors at the committee meetings is set out on page 14 of this annual report.

The following is a summary of work performed by the Audit Committee during 2008:

(i) review of the annual report and annual results announcement for the year ended December 31, 2007 with a recommendation to the Board for approval;

(ii) review of PricewaterhouseCoopers' independence and report, with a recommendation to the Board for the re-appointment of PricewaterhouseCoopers at the 2008 annual general meeting;

(iii) review of continuing connected transactions;

(iv) review of the annual caps of continuing connected transactions with the China Telecom Group with a recommendation to the Board for approval;

(v) review of the Group Internal Audit reports;

(vi) review of the interim report and the interim results announcement for the six months ended June 30, 2008 with a recommendation to the Board for approval;

(vii) review and approval of the auditor's report for the Audit Committee for the six months ended June 30, 2008 and management representation letter for the year ended December 31, 2008;

(viii) review of the terms of reference of the Audit Committee;

(ix) consideration and approval of audit and non-audit services;

(x) review of the corporate governance report for the year ended December 31, 2007 and the corporate governance disclosures for the six months ended June 30, 2008 with recommendations to the Board for approval;

(xi) review of the annual report on effectiveness of internal controls under the Code; and

(xii) review of the internal reorganization of the Company's businesses.

Subsequent to the year end, the Audit Committee reviewed the annual report and annual results announcement for the year ended December 31, 2008 with a recommendation to the Board for approval.

Audit Committee *(CONTINUED)*

For the year ended December 31, 2008, fees payable to the auditors of the Group amounted to approximately HK$20 million for audit services (2007: HK$20 million) and HK$33 million for non-audit services (2007: HK$11 million). The significant non-audit services covered by these fees included the following:

Nature of service	Fees payable (HK$ million)
Tax services	11
Other services	22
	33

Regulatory Compliance Committee

A Regulatory Compliance Committee comprising executive and non-executive directors, but excluding Chairman Li Tzar Kai, Richard, has been established to review and monitor dealings with the Hutchison Whampoa Group, the Cheung Kong Group and the Hong Kong Economic Journal Company Limited. This is to ensure all dealings between these entities are conducted on an arm's-length basis.

Members of the Regulatory Compliance Committee are:
Sir Roger Lobo *(Chairman)*
Alexander Anthony Arena
Professor Chang Hsin-kang
Dr The Hon Sir David Li Kwok Po
Lu Yimin[1]

INTERNAL CONTROLS

The directors are responsible for maintaining and reviewing the effectiveness of the Group's internal controls including material financial, operational and compliance controls, risk management functions and particularly the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget. Appropriate policies and control procedures have been designed and established to ensure that: Assets are safeguarded against improper use or disposal, relevant rules and regulations are adhered to and complied with, reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements, and key risks that may impact on the Group's performance are appropriately identified and managed. Such procedures are designed to manage, rather than eliminate, the risk of failure to achieve business objectives. These procedures can only provide reasonable, and not absolute, assurance against material errors, losses and fraud.

The directors, through the Company's Audit Committee and other sub-committees of the Board, are kept regularly appraised of significant risks that may impact on the Group's performance. The Audit Committee has, at each of its regularly scheduled meetings throughout the year, received a report from Group Internal Audit on the results of their activities during the preceding period, including any significant matters pertaining to the adequacy and effectiveness of internal controls including, but not limited to any indications of failings or material weaknesses in those controls. The Risk Management Department reviews significant aspects of risk management for PCCW group companies and makes recommendations to the Audit Committee and other committees from time to time, including amongst other things, the appropriate mitigation and/or transfer of identified risk.

Group Internal Audit provides independent assurance to the Board and executive management on the adequacy and effectiveness of internal controls for the Group. The Director of Group Internal Audit reports directly to the Audit Committee, the Group Managing Director and the Group Chief Financial Officer.

Group Internal Audit adopts a risk-and-control-based audit approach. The annual work plan of Group Internal Audit covers major activities and processes of the Group's business and service units. Special reviews are also performed at management's request. The results of these audit activities are communicated to the Audit Committee and key members of executive and senior management. Audit issues are tracked, followed up for proper implementation, and progress reported to the Audit Committee, executive and senior management periodically.

Prior to the delisting of the Company's American Depositary Shares from the New York Stock Exchange, Inc, which became effective on May 18, 2007, the Company adopted policies and procedures to comply with the stringent requirements of the Sarbanes-Oxley Act ("SOA") of the United States. A key requirement of the SOA was to ensure the effectiveness of internal controls and financial reporting by requiring extensive detailed testing of its internal controls, as well as annual certification as to these matters by the management of the Company. Following the delisting, the Company has not changed its policies and procedures materially and believe that this will enhance the Company's corporate governance and business practices in the future.

INTERNAL CONTROLS *(CONTINUED)*

During 2008, Group Internal Audit conducted selective reviews of the effectiveness of the Group's system of internal controls over financial, operational, compliance controls and risk management functions. Additionally, major heads of business and corporate functions were required to undertake a control self-assessment of their key controls. These results were assessed by Group Internal Audit and reported to the Audit Committee, which then reviewed and reported the same to the Board.

After a review of the accounting period ended December 31, 2008, the Audit Committee and the Board did not become aware of any areas of concern that would have an adverse impact on the Company's financial position or results of operations and considered the internal control systems to be effective and adequate including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget.

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

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company encourages two-way communication with institutional and retail investors, as well as financial and industry analysts. Extensive information on the Company's activities is provided in the annual and interim reports and circulars, which are sent to shareholders.

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

Regular dialogue takes place with the investment community. Inquiries from individuals on matters relating to their shareholdings and the business of the Company are welcomed and dealt with in an informative and timely manner. The relevant contact information is provided on page 140 of this annual report.

Shareholders are encouraged to attend the forthcoming annual general meeting of the Company for which at least 20 clear business days' notice is given. At the meeting, directors are available to answer questions on the Group's business.

On behalf of the Board

Philana WY Poon
Group General Counsel and Company Secretary
Hong Kong, April 22, 2009

- Core revenue increased by 7% to HK$22,008 million; consolidated revenue including PCPD increased by 35% to HK$31,951 million, reflecting higher property development revenue recognized
- Core EBITDA increased by 3% to HK$6,714 million; consolidated EBITDA including PCPD increased by 9% to HK$7,982 million. Core segment results and consolidated segment results decreased by 14% and 12% to HK$2,837 million and HK$3,529 million respectively
- Profit attributable to equity holders of the Company decreased by 15% to HK$1,272 million, mainly due to higher customer acquisition costs, a deficit on revaluation of investment properties and impairment provisions of investments
- Basic earnings per share of 18.78 HK cents

MANAGEMENT REVIEW

Year 2008 was a challenging year for PCCW. The Group's core businesses performed satisfactorily in the first three quarters, but were adversely affected in the fourth quarter by the deteriorating global economic conditions.

Core revenue for the year ended December 31, 2008 was up 7% to HK$22,008 million due to higher revenue contributions from TV & Content and Mobile businesses and steady revenue growth in Telecommunications Services ("TSS") and PCCW Solutions businesses. Consolidated revenue including PCPD was HK$31,951 million, compared with HK$23,715 million a year ago, reflecting higher property development revenue recognized from the Bel-Air project during 2008.

Core EBITDA for the year ended December 31, 2008 increased by 3% to HK$6,714 million, while consolidated EBITDA increased by 9% to HK$7,982 million.

Profit attributable to equity holders of the Company for the year ended December 31, 2008 was HK$1,272 million, down 15% from a year earlier. The decline was mainly due to higher customer acquisition costs, a deficit on revaluation of the Group's investment properties of HK$396 million and impairment provisions of investments of HK$161 million. Basic earnings per share was 18.78 HK cents. On April 22, 2009, the board of Directors (the "Board") has declared a special dividend of HK$1.30 per ordinary share. The special dividend has been declared in lieu of any final dividend for the year ended December 31, 2008.

OUTLOOK

Benefiting from a buoyant economy, PCCW began 2008 from a position of strength and growth. However, the operating environment turned more challenging during the last quarter of 2008 as the global financial crisis reversed economic trends and slowed down market activities.

PCCW will continue to manage its costs prudently and responsibly. This will be done without compromising the service standards and quality that we offer our customers. The Group's reorganization that took place during the second half of 2008 will increase operational efficiencies and provide a new platform to further develop our Telecommunications, Media and Technology ("TMT") businesses.

We remain committed to maintaining our long-held position as Hong Kong's premier telecommunications service provider, offering our customers innovative, premium quality products and excellent customer service.

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.

FINANCIAL REVIEW BY SEGMENTS

For the year ended December 31, HK$ million	2008 H1	2008 H2	2008 Full Year	2007 H1	2007 H2	2007 Full Year	Better/(Worse) y-o-y
Revenue							
TSS	**8,551**	**8,914**	**17,465**	7,706	8,930	16,636	5%
TV & Content	**1,039**	**1,200**	**2,239**	715	988	1,703	31%
Mobile	**857**	**887**	**1,744**	668	800	1,468	19%
PCCW Solutions	**900**	**966**	**1,866**	826	969	1,795	4%
Other Businesses	**43**	**43**	**86**	165	84	249	(65)%
Eliminations	**(636)**	**(756)**	**(1,392)**	(573)	(697)	(1,270)	(10)%
Total Revenue (excluding PCPD)	**10,754**	**11,254**	**22,008**	9,507	11,074	20,581	7%
PCPD	**618**	**9,325**	**9,943**	2,100	1,034	3,134	217%
Consolidated Revenue	**11,372**	**20,579**	**31,951**	11,607	12,108	23,715	35%
Cost of sales	**(4,942)**	**(12,908)**	**(17,850)**	(5,199)	(5,339)	(10,538)	(69)%
Operating costs before depreciation, amortization and restructuring costs	**(2,994)**	**(3,125)**	**(6,119)**	(2,799)	(3,082)	(5,881)	(4)%
EBITDA[1]							
TSS	**3,549**	**3,907**	**7,456**	3,431	4,004	7,435	0%
TV & Content	**(40)**	**(43)**	**(83)**	(74)	(83)	(157)	47%
Mobile	**108**	**134**	**242**	(56)	56	–	N/A
PCCW Solutions	**82**	**113**	**195**	102	48	150	30%
Other Businesses	**(335)**	**(761)**	**(1,096)**	(335)	(587)	(922)	(19)%
Total EBITDA (excluding PCPD)	**3,364**	**3,350**	**6,714**	3,068	3,438	6,506	3%
PCPD	**72**	**1,196**	**1,268**	541	249	790	61%
Consolidated EBITDA[1]	**3,436**	**4,546**	**7,982**	3,609	3,687	7,296	9%
Consolidated EBITDA Margin[1,3]	***30%***	***22%***	***25%***	*31%*	*30%*	*31%*	*(6)%*
Depreciation and amortization	**(1,750)**	**(1,946)**	**(3,696)**	(1,610)	(1,660)	(3,270)	(13)%
(Loss)/Gain on disposal of property, plant and equipment	**–**	**(19)**	**(19)**	11	(4)	7	N/A
Restructuring costs	**(2)**	**(169)**	**(171)**	–	–	–	N/A
Other (losses)/gains, net	**18**	**(482)**	**(464)**	55	(58)	(3)	>(500)%
Losses on property, plant and equipment	**–**	**(103)**	**(103)**	(2)	(5)	(7)	>(500)%
Segment results[2]							
TSS	**2,465**	**2,653**	**5,118**	2,392	2,930	5,322	(4)%
TV & Content	**(169)**	**(190)**	**(359)**	(150)	(247)	(397)	10%
Mobile	**(252)**	**(284)**	**(536)**	(361)	(257)	(618)	13%
PCCW Solutions	**55**	**82**	**137**	73	23	96	43%
Other Businesses	**(462)**	**(1,061)**	**(1,523)**	(422)	(673)	(1,095)	(39)%
Total segment results (excluding PCPD)	**1,637**	**1,200**	**2,837**	1,532	1,776	3,308	(14)%
PCPD	**65**	**627**	**692**	531	184	715	(3)%
Consolidated segment results[2]	**1,702**	**1,827**	**3,529**	2,063	1,960	4,023	(12)%

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 liabilities. Net debt refers to the principal amount of short-term borrowings and long-term liabilities 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 DRIVERS[4]

	2008		2007		Better/ (Worse)
	H1	**H2**	H1	H2	y-o-y
Exchange lines in service ('000)	**2,593**	**2,603**	2,590	2,590	1%
Business lines ('000)	**1,185**	**1,195**	1,183	1,183	1%
Residential lines ('000)	**1,408**	**1,408**	1,407	1,407	0%
Total broadband access lines ('000) (Consumer, business and wholesale customers)	**1,275**	**1,302**	1,176	1,237	5%
Retail consumer broadband subscribers ('000)	**1,099**	**1,126**	1,005	1,060	6%
Retail business broadband subscribers ('000)	**110**	**113**	104	107	6%
Consumer narrowband subscribers ('000)	**108**	**62**	117	111	(44)%
Traditional data (Exit Gbps)	**842**	**927**	614	723	28%
Retail IDD minutes ('M mins)	**907**	**878**	944	947	(6)%
International Private Leased Circuit ("IPLC") bandwidth (Exit Mbps)	**61,617**	**78,202**	47,098	44,144	77%
now TV					
Installed base ('000)	**927**	**953**	818	882	8%
Paying base ('000)	**668**	**686**	560	628	9%
Mobile subscribers ('000)	**1,176**	**1,313**	957	1,071	23%
3G post-paid ('000)	**288**	**414**	119	206	101%
2G post-paid ('000)	**459**	**440**	462	460	(4)%
2G prepaid ('000)	**429**	**459**	376	405	13%

TSS

The table below sets out the financial performance of TSS for the year ended December 31, 2008 and December 31, 2007:

For the year ended December 31, HK$ million	**2008** H1	**2008** H2	**2008** Full Year	2007 H1	2007 H2	2007 Full Year	Better/ (Worse) y-o-y
Local Telephony Services	**2,284**	**2,280**	**4,564**	2,343	2,391	4,734	(4)%
Local Data Services	**2,415**	**2,480**	**4,895**	2,214	2,443	4,657	5%
International Telecommunications Services	**1,911**	**1,906**	**3,817**	1,591	1,748	3,339	14%
Other Services	**1,941**	**2,248**	**4,189**	1,558	2,348	3,906	7%
TSS Revenue	**8,551**	**8,914**	**17,465**	7,706	8,930	16,636	5%
Cost of sales	**(2,922)**	**(3,229)**	**(6,151)**	(2,466)	(3,034)	(5,500)	(12)%
Operating costs before depreciation and amortization	**(2,080)**	**(1,778)**	**(3,858)**	(1,809)	(1,892)	(3,701)	(4)%
TSS EBITDA[1]	**3,549**	**3,907**	**7,456**	3,431	4,004	7,435	0%
TSS EBITDA Margin[1,3]	**42%**	**44%**	**43%**	45%	45%	45%	(2)%

TSS revenue reported an increase of 5% to HK$17,465 million for the year ended December 31, 2008. EBITDA remained fairly stable at HK$7,456 million while segment results decreased by 4% to HK$5,118 million.

Local Telephony Services. Local telephony services revenue for the year ended December 31, 2008 decreased by 4% to HK$4,564 million. Total fixed lines in service at the end of December 2008 increased by about 1% to approximately 2,603,000 with a marginal decline in average revenue per user ("ARPU").

Local Data Services. Local data services revenue increased by 5% to HK$4,895 million for the year ended December 31, 2008. The growth in broadband network revenue was mainly driven by the increase in consumer and business broadband revenues. Total broadband access lines in service reached 1,302,000 at the end of December 2008, up by 5% from a year ago. Commercial demand for high bandwidth connectivity services increased as more high bandwidth applications were deployed, which resulted in a 28% increase in bandwidth sold from a year ago. However, the effect of higher bandwidth consumption was partially evened out by price compression during the year.

International Telecommunications Services. International telecommunications services revenue for the year ended December 31, 2008 increased by 14% to HK$3,817 million, mainly driven by the growth in wholesale traditional and IP-based international connectivity and voice services. Average retail IDD rates were higher during the year, which offset the impact from a 6% decrease in retail IDD minutes.

Other Services. Other services revenue for the year ended December 31, 2008 increased by 7% to HK$4,189 million, primarily driven by a higher revenue from sales of computer and customer premises equipment.

TV & Content

For the year ended December 31, HK$ million	2008 H1	2008 H2	2008 Full Year	2007 H1	2007 H2	2007 Full Year	Better/ (Worse) y-o-y
TV & Content Revenue	**1,039**	**1,200**	**2,239**	715	988	1,703	31%
TV & Content EBITDA[1]	**(40)**	**(43)**	**(83)**	(74)	(83)	(157)	47%

TV & Content revenue increased by 31% to HK$2,239 million in 2008, primarily driven by a larger paying subscriber base and higher ARPU, as well as higher TV advertising revenues. EBITDA loss narrowed by 47% to HK$83 million.

now TV extended its leadership in the Hong Kong pay TV market with more than 170 channels of local, Asian and international programming at the end of December 2008. The installed subscriber base has enlarged by 8% to 953,000 at the end of December 2008 while the paying base grew 9% to 686,000. ARPU in December 2008 was HK$216, 9% higher than a year ago, due to the growing demand for higher value plans and a higher take-up of premium services and channels during the year.

Our digital music library, MOOV, previously exclusive to PCCW customers, was made available to all Internet users during the year, which also helped enhance the subscribers and ARPU growth of our popular broadband portal now.com.hk.

Mobile

For the year ended December 31, HK$ million	2008 H1	2008 H2	2008 Full Year	2007 H1	2007 H2	2007 Full Year	Better/ (Worse) y-o-y
Mobile Revenue	**857**	**887**	**1,744**	668	800	1,468	19%
Mobile EBITDA[1]	**108**	**134**	**242**	(56)	56	–	N/A

Mobile business saw a revenue growth of 19% to HK$1,744 million for 2008 due to an increased subscriber base, and generated a positive EBITDA of HK$242 million.

PCCW mobile's total subscribers expanded to 1,313,000 as at December 31, 2008, 23% higher than a year ago. The 3G subscriber base more than doubled to 414,000, while the total 2G subscriber base increased by 4% to 899,000 over the year.

Our 3G ARPU in December 2008 was stable compared to a year ago at HK$216. Our blended 2G and 3G post-paid ARPU also remained stable year-on-year at HK$153. While 2G service faced a higher pricing pressure from fierce competition, its revenue decline was more than compensated by the revenue growth of our 3G service.

PCCW Solutions

For the year ended December 31, HK$ million	2008 H1	2008 H2	2008 Full Year	2007 H1	2007 H2	2007 Full Year	Better/ (Worse) y-o-y
PCCW Solutions Revenue	**900**	**966**	**1,866**	826	969	1,795	4%
PCCW Solutions EBITDA[1]	**82**	**113**	**195**	102	48	150	30%

PCCW Solutions reported a 4% increase in revenue to HK$1,866 million for the year ended December 31, 2008. EBITDA increased by 30% to HK$195 million due to the completion of projects with higher margin during the year.

The data center hosting, application outsourcing services and business process outsourcing businesses provided by PCCW Solutions continued their stable growth during the year. Meanwhile, PCCW Solutions continued to secure projects with mainland Chinese telecommunications companies, and had expanded services into newer vertical industries including insurance and consumer retail in mainland China.

PCPD

PCPD revenue for the year ended December 31, 2008 increased by 217% to HK$9,943 million, mainly due to higher revenue recognized from the Bel-Air property development project.

PCPD began handing over to purchasers the completed luxury residential units at Bel-Air No.8 during mid-November 2008. The houses at Villa Bel-Air are expected to be released to the market gradually over the next two years. ONE Pacific Heights, which is located west of Central with 155 luxury boutique apartments, started pre-sales in June 2008 and is scheduled for completion around mid-2009.

In mainland China, PCPD's residential development in Beijing's Chaoyang district, which is located next to Pacific Century Place and with approximately 210 upmarket units, is scheduled for completion in 2010. Steady progress has been made on the overseas projects including the development of a world-class all-season luxury resort at Hanazono, Hokkaido in Japan and the development plans for luxury resort complexes at Thai Muang Beach, Phang-nga in southern Thailand.

For more information about the performance of PCPD, please refer to its 2008 annual results.

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 in 2008 decreased by 65% to HK$86 million largely due to the Group's disposal of its entire interest in a telecommunications business in Taiwan in 2007.

Eliminations

Eliminations was HK$1,392 million for the year ended December 31, 2008. Eliminations is related 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 year ended December 31, HK$ million	2008 H1	2008 H2	2008 Full Year	2007 H1	2007 H2	2007 Full Year	Better/ (Worse) y-o-y
The Group (excluding PCPD)	**4,584**	**5,084**	**9,668**	3,787	4,720	8,507	(14)%
PCPD	**358**	**7,824**	**8,182**	1,412	619	2,031	(303)%
Group Total	**4,942**	**12,908**	**17,850**	5,199	5,339	10,538	(69)%

The Group's consolidated total cost of sales for the year ended December 31, 2008 increased by 69% to HK$17,850 million, due to a 303% increase in PCPD's cost of sales to HK$8,182 million on higher property development cost recognized for the Bel-Air residential project.

The Group's cost of sales excluding PCPD increased by 14% to HK$9,668 million. The increase was in line with core business revenue growth, and higher content costs of the TV & Content business and the start-up cost of the new self-produced now Hong Kong channel during the year.

General and Administrative Expenses

For the year ended December 31, HK$ million	**2008**	2007	Better/ (Worse) y-o-y
Staff costs	**2,687**	2,785	4%
Rent, rates and utilities	**841**	934	10%
Other operating costs	**2,591**	2,162	(20)%
Total operating costs before depreciation, amortization and restructuring costs	**6,119**	5,881	(4)%
Depreciation and amortization	**3,696**	3,270	(13)%
Loss/(Gain) on disposal of property, plant and equipment	**19**	(7)	N/A
Restructuring costs	**171**	–	N/A
General and administrative expenses	**10,005**	9,144	(9)%

Total operating costs before depreciation, amortization and restructuring costs for 2008 increased by 4% to HK$6,119 million as a result of increased business activities. Depreciation and amortization increased by 13% to HK$3,696 million, predominantly due to higher customer acquisition costs. With higher total operating costs, higher depreciation and amortization expenses and the inclusion of restructuring costs of HK$171 million, general and administrative expenses increased by 9% to HK$10,005 million in 2008.

EBITDA[1]

Core EBITDA for the year ended December 31, 2008 increased by 3% to HK$6,714 million. Consolidated EBITDA including PCPD for 2008 increased by 9% to HK$7,982 million, primarily driven by the 61% increase in PCPD EBITDA to HK$1,268 million on higher property development profit recognized from the Bel-Air project.

Core EBITDA margin decreased by 1 percentage point to 31% in 2008. Consolidated EBITDA margin contracted to 25% in 2008 due to a greater EBITDA contribution from PCPD, which EBITDA margin also contracted from a year ago.

Other Losses, Net

Net other losses was HK$464 million for the year ended December 31, 2008 (2007: HK$3 million). Net other losses in 2008 primarily comprised a deficit on revaluation of investment properties and impairment provisions of investments, partially offset by gains on disposals of financial assets and on derivative financial instruments.

Segment Results[2]

Core segment results was 14% lower than a year ago at HK$2,837 million for the year ended December 31, 2008. Consolidated segment results including PCPD decreased by 12% to HK$3,529 million.

Interest Income and Finance Costs

Finance costs decreased by 11% to HK$1,473 million for the year ended December 31, 2008 due to the lower average HIBOR rates in 2008. On the other hand, interest income decreased by 54% to HK$197 million due to a lower average cash balance and lower average interest income rates in 2008. Net finance cost, therefore, increased by 4% to HK$1,276 million. The average cost of debt for the year ended December 31, 2008 improved to approximately 5% and the average remaining term of debt was approximately 3.6 years.

Share of Results of Associates and Jointly Controlled Companies

Share of results of associates and jointly controlled companies decreased to HK$11 million for the year ended December 31, 2008 (2007: HK$13 million).

Income Tax

Income tax expenses for the year ended December 31, 2008 decreased by 27% to HK$711 million and the Group's effective tax rate for the year ended December 31, 2008 was 32% (2007: 35%). The decrease of tax expenses and effective tax rate was mainly due to a net movement of deferred income tax and an increase in other tax provision. 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$250 million primarily represented the net profit attributable to the minority shareholders of PCPD.

Profit Attributable to Equity Holders of the Company

Profit attributable to equity holders of the Company for the year ended December 31, 2008 amounted to HK$1,272 million (2007: HK$1,503 million).

LIQUIDITY AND CAPITAL RESOURCES

The Group's gross debt[5] totaled HK$32,200 million as at December 31, 2008 (2007: HK$25,774 million). Cash and cash equivalents increased to HK$9,284 million (2007: HK$3,678 million). The Group's net debt[5] was HK$22,813 million as at December 31, 2008 compared to HK$21,990 million as at December 31, 2007. The increase in net debt was mainly due to cash invested in property development projects and the payment of dividends during the year.

On January 2, 2009, the Group drew down the remaining amount of HK$7,200 million available for drawdown under the HK$23,800 million Hong Kong Telecommunications (HKT) Limited loan facilities.

The Group's gross debt[5] to total assets was 57% as at December 31, 2008 (2007: 50%).

CREDIT RATINGS OF HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

Moody's Investors Service ("Moody's") and Standard & Poor's Ratings Services ("Standard & Poor's") had withdrawn the ratings on PCCW-HKT Telephone Limited and assigned new ratings to Hong Kong Telecommunications (HKT) Limited ("HKT") upon the completion of the Group's corporate reorganization in November 2008. HKT is currently rated Baa2 (outlook negative) by Moody's and BBB (outlook negative) by Standard & Poor's.

CAPITAL EXPENDITURE[6]

Group capital expenditure for the year ended December 31, 2008 increased to HK$3,342 million (2007: HK$3,238 million). The increase was mainly due to expanded investments and enhancement in meeting service demands on commercial data, high-speed broadband, mobile and international networks. 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 December 31, 2008, all cross currency swap contracts were designated as cash flow hedges for the Group's foreign currency denominated long-term liabilities.

CHARGE ON ASSETS

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

CONTINGENT LIABILITIES

As at December 31, HK$ million	**2008**	2007
Performance guarantee	**923**	841
Others	**27**	80
	950	921

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

HUMAN RESOURCES

As at December 31, 2008, the Group had approximately 17,000 employees (2007: 15,800). 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 EBITDA[1] and net profit after tax targets for the Group as a whole, and revenue and EBITDA[1] 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.

FINANCIAL INFORMATION

REPORT OF THE DIRECTORS

The directors present their annual report together with the audited consolidated financial statements of PCCW Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended December 31, 2008.

PRINCIPAL ACTIVITIES

The principal activities of the Group are the provision of local, mobile and international telecommunications services, Internet access services, interactive multimedia and pay-TV services, the sale and rental of telecommunications equipment, and the provision of computer, engineering and other technical services primarily in the Hong Kong Special Administrative Region ("Hong Kong"), and also in mainland China and elsewhere in the Asia Pacific region; investments in, and development of, systems integration, network engineering, and technology-related businesses; and investments in, and development of, infrastructure and properties in Hong Kong, mainland China and elsewhere in the Asia Pacific and Middle East regions.

Details of segment information are set out in note 6 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2008 are set out in the accompanying consolidated financial statements on page 49.

An interim dividend of 7 HK cents (2007: 6.5 HK cents) per ordinary share, totaling approximately HK$474 million (2007: HK$440 million), was paid to shareholders of the Company in October 2008.

On April 22, 2009, the board of directors (the "Board") declared a special dividend of HK$1.30 per ordinary share. The special dividend will be paid in cash on or around Monday, May 18, 2009 to those shareholders on the register of members of the Company at the close of business on Wednesday, May 13, 2009. The special dividend has been declared in lieu of any final dividend for the year ended December 31, 2008.

FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of the Group for the last five financial years is set out on page 138.

SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED COMPANIES

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

FIXED ASSETS

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

BORROWINGS

Particulars of the Group's and the Company's borrowings are set out in notes 26(f) and 27 to the consolidated financial statements.

SHARE CAPITAL

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

RESERVES

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2008, the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover. The aggregate amount of purchases attributable to the Group's five largest suppliers represented less than 30% of the Group's total purchases.

DIRECTORS

The directors who held office during the year and up to the date of this report 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	(appointed on May 30, 2008)
Zuo Xunsheng *Deputy Chairman*	
Li Fushen	
Zhang Chunjiang	(resigned on May 28, 2008)

Independent Non-Executive Directors

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

In accordance with Articles 92 and 101A of the Company's Articles of Association, Chung Cho Yee, Mico, Lee Chi Hong, Robert, Sir David Ford, Lu Yimin and Sir Roger Lobo shall retire from office and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and considers that all the independent non-executive directors are independent in accordance with the terms of the independence guidelines set out in Rule 3.13 of the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

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

As at December 31, 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to 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	Number of ordinary shares: Personal interests	Family interests	Corporate interests	Other interests	Number of underlying shares held under equity derivatives	Total	Approximate percentage of issued share capital
Li Tzar Kai, Richard	–	–	250,109,824 *(Note 1(a))*	1,674,560,335 *(Note 1(b))*	–	1,924,670,159	28.42%
Alexander Anthony Arena	760,000	–	–	–	15,800,200 *(Note 2)*	16,560,200	0.24%
Peter Anthony Allen	253,200	–	–	–	4,629,200 *(Note 3)*	4,882,400	0.07%
Chung Cho Yee, Mico	1,176,260	18,455 *(Note 4)*	–	–	14,390,400 *(Note 3)*	15,585,115	0.23%
Lee Chi Hong, Robert	992,600 *(Note 5(a))*	511 *(Note 5(b))*	–	–	6,000,000 *(Note 3)*	6,993,111	0.10%
Sir David Ford	–	–	–	–	3,000,000 *(Note 3)*	3,000,000	0.04%
Professor Chang Hsin-kang	64,000	–	–	–	–	64,000	0.001%
Dr The Hon Sir David Li Kwok Po	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 102,122,177 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 102,122,177 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 1,535,711,301 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 75.74% interest. Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Li Tzar Kai, Richard was also deemed to be interested in 0.91% of PCRD through Hopestar Holdings Limited, a company wholly-owned by Li Tzar Kai, Richard. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 1,535,711,301 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	Number of ordinary shares Personal interests	Family interests	Corporate interests	Other interests	Number of underlying shares held under equity derivatives	Total	Approximate percentage of issued share capital
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 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 December 31, 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") and unless otherwise cancelled or amended, is valid and effective for 10 years from that date. The 1994 Scheme was amended at an extraordinary general meeting of the Company held on May 23, 2002 in order to, among other things, comply with the requirements of Chapter 17 of the Listing Rules which came into effect on September 1, 2001. At the annual general meeting of the Company held on May 19, 2004, the shareholders of the Company approved the termination of the 1994 Scheme and adoption of a new share option scheme (the "2004 Scheme"). The 2004 Scheme will remain in force for 10 years from the date of its adoption, unless otherwise cancelled or amended.

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

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

The maximum number of shares in respect of which options may be granted under the 2004 Scheme shall not in aggregate exceed 10% of the shares of the Company in issue as at the date of approval of such scheme. As at December 31, 2008, the total number of shares of the Company that may be issued upon exercise of all share options granted and yet to be exercised under the 2004 Scheme was 38,391,500, which represented approximately 0.57% of the issued share capital of the Company as at that date. As at December 31, 2008, the total number of shares of the Company that may be issued on exercise of all share options granted and yet to be exercised under the 1994 Scheme was 99,580,230, which represented approximately 1.47% of the issued share capital of the Company as at that date. The maximum entitlement for any eligible person (other than a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates) under the Schemes is that the total number of shares issued and to be issued on exercise of all options granted and to be granted in any 12-month period up to and including the date of the latest grant does not exceed 1% of the shares of the Company in issue at the relevant time. Any further grant of share options in excess of this limit is subject to shareholders' approval at a general meeting.

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

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

SHARE OPTION SCHEMES *(CONTINUED)*

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

Details of the share options outstanding and movements during the year ended December 31, 2008 are as follows:

A. 1994 Scheme

(1) Outstanding options at January 1, 2008 and at December 31, 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	Number of options Outstanding at 12.31.2008
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 December 31, 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	Number of options Outstanding at 12.31.2008
Employees						
In aggregate	08.17.1999 to 09.15.1999	*(Note 3)*	08.17.2000 to 08.17.2009	11.7800	5,722,393	5,345,593
	10.25.1999 to 11.23.1999	*(Note 3)*	10.25.2000 to 10.25.2009	22.7600	1,724,000	1,529,600
	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	8,159,626
	01.22.2001 to 02.20.2001	*(Note 6)*	*(Note 6)*	16.8400	5,532,439	5,293,839
	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	1,050,920
	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	210,280
	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	6,120,000
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	31,816,673	30,360,672
	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 year ended December 31, 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	1,224,001	4.9349

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

(3) Options cancelled or lapsed during the year ended December 31, 2008

Name or category of participant	Exercise price HK$	Number of options cancelled	Number of options lapsed
Employees			
In aggregate	11.7800	–	376,800
	22.7600	–	194,400
	60.1200	–	88,000
	24.3600	–	583,280
	16.8400	–	238,600
	10.3000	–	17,920
	9.1600	–	26,040
	6.1500	–	380,000
	4.3500	–	232,000
	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 December 31, 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	Number of options Outstanding at 12.31.2008
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	27,391,500

(2) Options granted during the year ended December 31, 2008

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

(3) Options exercised during the year ended December 31, 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	2,443,500	4.9796

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

SHARE OPTION SCHEMES *(CONTINUED)*

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

B. 2004 Scheme *(continued)*

(4) Options cancelled or lapsed during the year ended December 31, 2008

Name or category of participant	Exercise price HK$	Number of options cancelled	Number of options lapsed
Employees			
In aggregate	4.4750	–	440,500

2. Share Option Schemes of Subsidiaries of the Company

A. PCPD

PCPD, an indirect non wholly-owned subsidiary of the Company, adopted a share option scheme on March 17, 2003 (the "2003 PCPD Scheme"), which was valid for 10 years after the date of adoption. In order to align the terms of the share option scheme of PCPD with those of the Company and in view of the limited number of shares capable of being issued under the 2003 PCPD Scheme relative to the current capital base of PCPD, the shareholders of PCPD approved the termination of the 2003 PCPD Scheme and the adoption of a new share option scheme (the "2005 PCPD Scheme"), particulars of which are set out in note 32(c) to the consolidated financial statements, at PCPD's annual general meeting held on May 13, 2005. The 2005 PCPD Scheme became effective on May 23, 2005 following its approval by the shareholders of the Company. No further share options will be granted under the 2003 PCPD Scheme following its termination, but the provisions of such scheme will remain in full force and effect with respect to the options granted prior to its termination. The board of directors of PCPD may, at its discretion, grant share options to any eligible person to subscribe for shares of PCPD subject to the terms and conditions stipulated in the 2005 PCPD Scheme.

Details of the share options outstanding under the 2003 PCPD Scheme and movements during the year ended December 31, 2008 are as follows:

2003 PCPD Scheme

(1) Outstanding options at January 1, 2008 and at December 31, 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	Number of options Outstanding at 12.31.2008
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 December 31, 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 year ended December 31, 2008

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

SHARE OPTION SCHEMES *(CONTINUED)*

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

A. PCPD *(continued)*

2003 PCPD Scheme *(continued)*

(3) Options exercised during the year ended December 31, 2008

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

(4) Options cancelled or lapsed during the year ended December 31, 2008

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

2005 PCPD Scheme

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

Notes:

1. All dates are shown month/day/year.

2. Due to the large number of employees participating in the 1994 Scheme, certain information such as the date of grant can only be shown within a reasonable range in this report. For options granted to employees, the options were granted, where applicable, during the underlying periods for acceptance of the offer of such options by the employees concerned.

3. These options vest in installments during a period starting from the first anniversary of the offer date of such options (the "Offer Date") and ending on either the third or fifth anniversary of the Offer Date inclusive.

4. These options vest in installments during a period starting from: (i) May 26, 2001 and ending on May 26, 2003 inclusive; (ii) the first anniversary of the Offer Date and ending on the third anniversary of the Offer Date inclusive; or (iii) the first anniversary of the Offer Date and ending on the fifth anniversary of the Offer Date inclusive. All these options are exercisable in installments from the commencement of the relevant vesting period until the tenth anniversary of the Offer Date.

5. These options vest in installments during a period starting from: (i) March 15, 2001 and ending on March 15, 2005 inclusive; or (ii) the first anniversary of the Offer Date and ending on the third anniversary of the Offer Date inclusive. All these options are exercisable in installments from the commencement of the relevant vesting period until the tenth anniversary of the Offer Date.

6. These options vest in installments during a period starting from: (i) dates ranging between the date of grant to August 26, 2001 and ending on dates ranging between December 7, 2002 to August 26, 2005 inclusive; (ii) the first anniversary of the Offer Date and ending on the third anniversary of the Offer Date inclusive; or (iii) the first anniversary of the Offer Date and ending on the fifth anniversary of the Offer Date inclusive. All these options are exercisable in installments from the commencement of the relevant vesting period until the tenth anniversary of the Offer Date.

7. These options vest in installments during a period starting from: (i) May 26, 2001 and ending on May 26, 2005 inclusive; (ii) the first anniversary of the Offer Date and ending on the third anniversary of the Offer Date inclusive; or (iii) the first anniversary of the Offer Date and ending on the fifth anniversary of the Offer Date inclusive. All these options are exercisable in installments from the commencement of the relevant vesting period until the tenth anniversary of the Offer Date.

8. Subsequent to the despatch of the scheme document and the supplemental scheme document for the proposed privatization of the Company in December 2008 and January 2009 respectively, certain directors and some optionholders accepted the conditional option offer and/or revised option offer made by the joint offerors to cancel all or part of the share options under the privatization proposal. For details of the proposed privatization, please refer to the Post Balance Sheet Event set out in note 44 to the consolidated financial statements.

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 year ended December 31, 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 year was the Company or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangement that may enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors or chief executive of the Company or their spouses or children under 18 years of age had any right to subscribe for equity or debt securities of the Company or any of its associated corporations or had exercised any such right during the year.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at December 31, 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 shareholder	*Note*	Number of shares/underlying shares held	Approximate percentage of issued share capital
Interests			
PCRD		1,535,711,301	22.68%
PCGH	*1*	1,637,833,478	24.18%
Star Ocean Ultimate Limited	*2*	1,637,833,478	24.18%
The Ocean Trust	*2*	1,637,833,478	24.18%
The Starlite Trust	*2*	1,637,833,478	24.18%
OS Holdings Limited	*2*	1,637,833,478	24.18%
Ocean Star Management Limited	*2*	1,637,833,478	24.18%
The Ocean Unit Trust	*2*	1,637,833,478	24.18%
The Starlite Unit Trust	*2*	1,637,833,478	24.18%
China Network Communications Group Corporation ("CNC")	*3*	1,343,571,766	19.84%

Notes:

1. These interests represented (i) PCGH's beneficial interests in 102,122,177 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 75.74% of PCRD) in 1,535,711,301 shares held by PCRD.

2. 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.

3. CNC indirectly held these interests through its indirect wholly-owned subsidiary, China Netcom Corporation (BVI) Limited ("China Netcom BVI"). China United Network Communications Group Company Limited ("Unicom", formerly known as China United Telecommunications Corporation) and CNC agreed to undertake a merger ("Unicom-CNC Merger") which became effective on January 1, 2009 after approval by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC. Unicom, through absorption of CNC, is the successor entity to the Unicom-CNC Merger. As a result of the Unicom-CNC Merger, Unicom has assumed all the rights and obligations of CNC and all the assets, liabilities and business of CNC have vested in Unicom. China Netcom BVI has become a wholly-owned subsidiary of Unicom.

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

As at December 31, 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 of shareholder		Number of shares/underlying shares held	Approximate percentage of issued share capital
Interests			
Ocean Star Investment Management Limited	*Note*	1,637,833,478	24.18%

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 to 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 December 31, 2008.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance in relation to the Group's business (as defined in the Listing Rules) to which the Company, its subsidiaries, its holding companies or any of its fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

The interests of the directors of the Company in competing business required to be disclosed pursuant to Rule 8.10 of the Listing Rules are as follows:

Name of Director	Name of company	Nature of business	Nature of interests
Li Tzar Kai, Richard	Cheung Kong and its subsidiaries (the "Cheung Kong Group")	Property development and investment, hotel and serviced suite operation, property and project management and investment in securities	Deemed interests in Cheung Kong *(Note 1)*
	HWL and its subsidiaries (the "Hutchison Group")	Ports and related services; property and hotels; retail; energy, infrastructure, investments and others; and telecommunications	Certain personal and deemed interests in HWL *(Note 2)*
Chung Cho Yee, Mico *(Note 3)*	Capital Strategic Investment Limited ("CSI") and its subsidiaries	Property investment and securities investment	Non-Executive Chairman and beneficial owner of 36.50% of CSI
Lu Yimin	CNC and China Netcom Group Corporation (Hong Kong) Limited ("CNC HK") *(Notes 4 & 5)*	Provision of telecommunications services	Senior Management of CNC
	Unicom and China Unicom (Hong Kong) Limited ("Unicom HK") *(Notes 4 & 5)*	Provision of wireless, fixed-line, broadband, data and related value-added services	Vice Chairman and President of Unicom Executive Director and President of Unicom HK
Zuo Xunsheng	CNC and CNC HK *(Notes 4 & 5)*	Provision of telecommunications services	Vice President of CNC Chairman and Chief Executive Officer of CNC HK
	Unicom and Unicom HK *(Notes 4 & 5)*	Provision of wireless, fixed-line, broadband, data and related value-added services	Vice Chairman and Vice President of Unicom Executive Director and Senior Vice President of Unicom HK
Li Fushen	CNC and CNC HK *(Notes 4 & 5)*	Provision of telecommunications services	Chief Accountant of CNC Executive Director and Chief Financial Officer of CNC HK
	Unicom HK *(Notes 4 & 5)*	Provision of wireless, fixed-line, broadband, data and related value-added services	Senior Vice President of Unicom HK

DIRECTORS' INTERESTS IN COMPETING BUSINESS *(CONTINUED)*

In addition, Li Tzar Kai, Richard, Peter Anthony Allen and Lee Chi Hong, Robert are directors of certain private companies (the "Private Companies"), which are engaged in property development and investment in Hong Kong and Japan.

Further, Li Tzar Kai, Richard, Alexander Anthony Arena and Peter Anthony Allen are directors of PCRD. PCRD is an investment holding company of, among others, interests in the Company and property and infrastructure investment in the Asia Pacific region.

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

Li Tzar Kai, Richard has a controlling interest in some of the Private Companies. Further, he is or may be regarded as interested in PCRD and PCGH due to the interests as disclosed in the section headed "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATION" of this report.

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

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

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

Notes:

1. Certain businesses of the Cheung Kong Group may compete with certain aspects of the business of the Group. Li Tzar Kai, Richard is one of the discretionary beneficiaries of certain discretionary trusts which hold units in unit trusts which in turn are interested in certain shares of Cheung Kong. Li Tzar Kai, Richard holds one-third of the issued share capital of two companies, which own all the shares in the trustee companies which act as trustees of such discretionary trusts and unit trusts. These trustee companies perform their functions as trustees independently without any reference to Li Tzar Kai, Richard. In view of the above, the Company considers that Li Tzar Kai, Richard is not able to exert control or influence over the Cheung Kong Group.

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

3. Chung Cho Yee, Mico holds direct personal interest in a private company, which engages in property investment or development in Repulse Bay, Hong Kong.

4. The merger of CNC HK and Unicom HK (formerly known as China Unicom Limited) by way of a scheme of arrangement of CNC HK under Section 166 of the Hong Kong Companies Ordinance became effective on October 15, 2008.

5. Unicom and CNC agreed to undertake a merger ("Unicom-CNC Merger") which became effective on January 1, 2009 after approval by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC. Unicom, through absorption of CNC, is the successor entity to the Unicom-CNC Merger. As a result of the Unicom-CNC Merger, Unicom has assumed all the rights and obligations of CNC and all the assets, liabilities and business of CNC have vested in Unicom.

CHARITABLE DONATIONS

During the year, the Group made charitable donations of approximately HK$0.114 million (2007: HK$0.003 million).

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event are set out in note 44 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF 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 year ended December 31, 2008.

CONTINUING CONNECTED TRANSACTIONS

Certain transactions entered into by the Group constituted continuing connected transactions under the Listing Rules. Details of the transactions as at December 31, 2008 are set out as follows:

1. **China Telecommunications Corporation ("China Telecom") and its subsidiaries and associates (collectively the "CTC Group")**

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

   The Group from time to time enters into transactions with the CTC Group (the "CTC Transactions") relating to the acquisition and provision of certain information technology services and products. It is considered that the entering into of the CTC Transactions with the CTC Group is consistent with the commercial objectives of the Group and falls within the core business of the Group. These transactions constitute continuing connected transactions of the Company under the Listing Rules.

   During the year 2008, the Company revised the previously announced 2008 and 2009 annual caps as disclosed in the Company's announcement dated February 15, 2007 and set the new 2010 annual caps for each of the following categories of transactions based on the nature of the transactions from time to time entered into with the CTC Group:

   (1) Provision of data services by the Group to the CTC Group;

   (2) Provision of data services by the CTC Group to the Group; and

   (3) Provision of systems integration services by the Group to the CTC Group.

   The consideration for each of the above categories of the CTC Transactions is or will be a fixed sum set out in the relevant agreements between the relevant parties, settled by way of cash and determined by arm's length negotiations between the relevant parties with reference to (i) the estimated costs of the provision of the relevant services to and/or from the CTC Group; and (ii) if applicable, the estimated costs of the relevant hardware equipment and the resources to be incurred by the Group for installing the same. In general, the duration or term of each CTC Transaction will not exceed three years, other than those of a similar nature as the capacity purchase and sale contracts relating to the grant of indefeasible rights to use bandwidth capacity (the "IRU Contracts") available on both groups' networks to and/or from the CTC Group.

   The Group may from time to time enter into the IRU Contracts which are categorized under data services (as mentioned above) and are part of the normal commercial services of the Group, and Access Capital Limited, the independent financial adviser appointed in accordance with the Listing Rules, is of the view that it is (i) essential to safeguard the interests of the Company and its shareholders to enter into IRU Contracts with duration exceeding three years; and (ii) normal business practice for the provision of IRU Contracts to be of a duration exceeding three years and be for a term up to 15 years.

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

1. China Telecommunications Corporation ("China Telecom") and its subsidiaries and associates (collectively the "CTC Group") *(continued)*

The approximate aggregate value and the revised 2008 annual caps of each category of the CTC Transactions are set out below:

Category	Approximate aggregate value for the financial year ended December 31, 2008 (HK$'000)	Annual cap for the CTC Group for the financial year ended December 31, 2008 (HK$'000)
(1) Provision of data services by the Group to the CTC Group	145,592	530,000
(2) Provision of data services by the CTC Group to the Group	226,284	730,000
(3) Provision of systems integration services by the Group to the CTC Group	967,378	1,300,000

2. China Network Communications Group Corporation ("CNC") and its subsidiaries and associates (collectively the "CNC Group")

China Netcom Corporation (BVI) Limited ("China Netcom BVI"), an indirect wholly-owned subsidiary of CNC, was a substantial shareholder and connected person (as defined in the Listing Rules) of the Company during the year under review. Accordingly, the CNC Group was a connected person of the Company under the Listing Rules and transactions between the Group and the CNC Group constituted connected transactions for the Company under the Listing Rules.

The Group has, from time to time, entered into transactions with the CNC Group (which included Unicom HK and its subsidiaries and associates as a result of its merger with CNC HK effective October 15, 2008) relating to (i) the acquisition and provision of certain information technology services and products (the "CNC-Unicom Transactions"); and (ii) the lease and facility and management services as referred to in the Company's announcement dated January 4, 2008 (the "Lease and Facility and Management Services", together with the CNC-Unicom Transactions, collectively referred to as the "CNC Transactions"). These transactions constituted continuing connected transactions of the Company under the Listing Rules.

It is considered that the entering into of the CNC-Unicom Transactions with the CNC Group is consistent with the commercial objectives of the Group and falls within the core business of the Group. It is anticipated that entering into the CNC-Unicom Transactions with the CNC Group will further strengthen the Group's position as a provider of the information technology services in the PRC.

It is considered that the entering into of the Lease and Facility and Management Services with the CNC Group will complement and ensure a stable, uninterrupted and reliable services to be provided by the Group and will allow the Group to achieve its commercial objectives and enhance the core business of the Group, which may enhance the business and performance of the Group.

As referred to in the Company's announcement dated January 4, 2008, the Company set an annual cap for each of the following categories of transactions for the financial year ending December 31, 2008 based on the nature of transactions from time to time entered into with the CNC Group:

(1) Provision of data services by the Group to the CNC Group;

(2) Provision of data services by the CNC Group to the Group; and

(3) Provision of systems integration services by the Group to the CNC Group.

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

2. China Network Communications Group Corporation ("CNC") and its subsidiaries and associates (collectively the "CNC Group") *(continued)*

The consideration for each of the above categories of the CNC-Unicom Transactions is or will be a fixed sum set out in the relevant agreements between the relevant parties, settled by way of cash and determined by arm's length negotiations between the relevant parties with reference to (i) the estimated costs of the provision of the relevant services to and/or from the CNC Group; and (ii) if applicable, the estimated costs of the relevant hardware equipment and the resources to be incurred by the Group for installing the same. In general, the duration or term of each CNC-Unicom Transaction will not exceed three years, other than those capacity purchase and sale contracts relating to the grant of indefeasible rights to use bandwidth capacity (the "IRU Contracts") available on both groups' networks to and/or from the CNC Group and the IPLC Services Agreements (below defined) which are not materially different in nature to the IRU Contracts.

The Group has, from time to time, entered into the IRU Contracts which are categorized under data services (as mentioned above) and are part of the normal commercial activities of the Group. Access Capital Limited, the independent financial adviser appointed in accordance with the Listing Rules, confirmed that it is normal business practice for the provision of IRU Contracts to be of a duration exceeding three years and be for a term up to 15 years.

During the year 2008, PCCW Global Limited, an indirect wholly-owned subsidiary of the Company entered into international private leased circuit services (the "IPLC Services") agreements with China Netcom (Group) Company Limited, a subsidiary of the CNC Group for the provision of IPLC Services to be made by the Group to the CNC Group (for a period of six and a half years) and vice versa (for a period of five years) (the "IPLC Services Agreements") which are not materially different in nature to the IRU Contracts. The IPLC Services are categorized as aforesaid data services and are part of the normal commercial services of the Group. Access Capital Limited, the independent financial adviser appointed in accordance with the Listing Rules, was of the opinion that it is (i) essential to safeguard the interests of the Company and its shareholders to enter into the IPLC Services Agreements with duration exceeding three years; and (ii) a normal business practice for the provision of IPLC Services relating to the IPLC Services Agreements to be of a duration exceeding three years and be for a term up to six and a half years (from the Group to the CNC Group) and five years (from the CNC Group to the Group).

The approximate aggregate value and the annual caps of each category of the CNC-Unicom Transactions are set out below:

Category	Approximate aggregate value for the financial year ended December 31, 2008 (HK$'000)	Annual cap for the CNC Group for the financial year ended December 31, 2008 (HK$'000)
(1) Provision of data services by the Group to the CNC Group	69,230	300,000
(2) Provision of data services by the CNC Group to the Group	97,605	350,000
(3) Provision of systems integration services by the Group to the CNC Group	64,307	150,000

Regarding the Lease and Facility and Management Services, 電訊盈科信息技術(廣州)有限公司 (PCCW Solutions (Guangzhou) Limited) ("PCCW GZ"), an indirect wholly-owned subsidiary of the Company, entered into a lease and facility and management services agreement (the "Agreement") with 中國網絡通信集團公司廣東省分公司 (China Network Communications Group Corporation Guangdong Branch) ("CNC GD"), the Guangdong branch of CNC during the year under review with duration exceeding three years. Pursuant to the Agreement, CNC GD will lease to PCCW GZ an area for use as a service centre and provide PCCW GZ with facility and management services in respect of certain area in CNC Science Town Telecommunications Hub Building situated in the Guangzhou Science Town, Guangdong Province, the PRC. As disclosed in the Company's announcement dated January 4, 2008, Access Capital Limited, the independent financial adviser appointed in accordance with the Listing Rules, was of the view that the transactions under the Agreement may enhance and safeguard the business and performance of the Group, and the interests of the Company and its shareholders as a whole, and given the nature of the lease and the services to be provided by CNC GD under the Agreement and any supplemental agreement when it is entered into, it is normal business practice for the Agreement and the supplemental agreement in relation to the optional extended areas (if and when it is entered into when the area extension option is exercised by PCCW GZ pursuant to the Agreement), if any, to have a duration of 15 years, with an option to renew for another five years. The approximate service fees charged by CNC GD for the year ended December 31, 2008 was HK$3,634,000 which did not exceed the annual cap for the first year of the 15-year term of HK$29,522,000.

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

2. China Network Communications Group Corporation ("CNC") and its subsidiaries and associates (collectively the "CNC Group") *(continued)*

On January 23, 2009, the Company made an announcement regarding the setting of an annual cap for each of the above three categories of the CNC-Unicom Transactions for each of the three financial years ending December 31, 2011 based on the nature of the transactions from time to time entered into with the Unicom and its subsidiaries and associates.

3. Annual Review of Continuing Connected Transactions

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged an external auditor of the Company to perform certain agreed upon procedures in respect of the CTC Transactions and the CNC Transactions entered into by the Group for the year ended December 31, 2008.

The external auditor has reported their factual findings on these procedures to the Board that the samples the external auditor selected for the CTC Transactions and the CNC Transactions were in agreement in respect of items (ii), (iii) and (iv) below. The external auditor confirmed to the Board in writing that for the year ended December 31, 2008, the CTC Transactions and the CNC Transactions:

(i) were approved by the Board;

(ii) were in accordance with the pricing policies of the Group if the CTC Transactions and the CNC Transactions involve the provision of goods or services by the Group;

(iii) were entered into in accordance with the relevant agreements governing the CTC Transactions and the CNC Transactions; and

(iv) did not exceed the respective annual caps of the CTC Transactions and the CNC Transactions disclosed in the Company's previous announcements.

The Board, including the independent non-executive directors of the Company, has reviewed and confirmed that the CTC Transactions and the CNC Transactions for the year ended December 31, 2008 were entered into:

(i) in the ordinary and usual course of the business of the Group;

(ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or obtained from the independent third parties; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

RELATED PARTY TRANSACTIONS

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

PUBLIC FLOAT

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

AUDITOR

The financial statements for the financial year ended December 31, 2008 have been audited by PricewaterhouseCoopers who will retire on conclusion of the forthcoming annual general meeting of the Company. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Philana WY Poon
Group General Counsel and Company Secretary
Hong Kong, April 22, 2009

INDEPENDENT AUDITOR'S REPORT

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888

TO THE SHAREHOLDERS OF PCCW LIMITED
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of PCCW Limited (the "Company") and its subsidiaries (collectively the "Group") set out on pages 49 to 137, which comprise the consolidated and company balance sheets as at December 31, 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at December 31, 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, April 22, 2009

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2008

In HK$ million (except for earnings per share)	Note(s)	**2008**	2007
Turnover	5 & 6	**31,951**	23,715
Cost of sales		**(17,850)**	(10,538)
General and administrative expenses		**(10,005)**	(9,144)
Other losses, net	7	**(464)**	(3)
Losses on property, plant and equipment	8	**(103)**	(7)
Interest income		**197**	429
Finance costs	10	**(1,473)**	(1,658)
Share of results of associates		**27**	25
Share of results of jointly controlled companies		**(16)**	(12)
Impairment losses on interests in jointly controlled companies		**(31)**	–
Profit before income tax	9	**2,233**	2,807
Income tax	12(a)	**(711)**	(970)
Profit for the year	6(a)	**1,522**	1,837
Attributable to:			
Equity holders of the Company		**1,272**	1,503
Minority interests		**250**	334
Profit for the year		**1,522**	1,837
Dividends payable to equity holders of the Company attributable to the year:	14(a)		
Interim dividend declared and paid during the year		**474**	440
Final dividend proposed after the balance sheet date		**–**	915
Special dividend declared after the balance sheet date		**8,804**	–
		9,278	1,355
Earnings per share	15		
Basic		**18.78 cents**	22.21 cents
Diluted		**18.77 cents**	22.18 cents

The notes on pages 56 to 137 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2008

In HK$ million	Note(s)	2008 Attributable to equity holders of the Company	Minority interests	Total equity
At January 1, 2008		**1,552**	**2,799**	**4,351**
Translation exchange differences	33	**42**	**116**	**158**
Available-for-sale financial assets:				
– changes in fair value	33	**(105)**	**–**	**(105)**
– transfer to income statement on impairment	33	**74**	**–**	**74**
Cash flow hedges:				
– effective portion of changes in fair value	33	**247**	**–**	**247**
– transfer from equity to income statement	33	**75**	**–**	**75**
Net income recognized directly in equity		**333**	**116**	**449**
Profit for the year		**1,272**	**250**	**1,522**
Total recognized income and expense for the year		**1,605**	**366**	**1,971**
Repurchase of shares		**(49)**	**–**	**(49)**
Exercise of employee share options		**16**	**–**	**16**
Movements in equity arising from capital transactions		**(33)**	**–**	**(33)**
Dividend paid in respect of the previous year	14(b) & 33	**(915)**	**–**	**(915)**
Dividend declared and paid in respect of the current year	14(a) & 33	**(474)**	**–**	**(474)**
At December 31, 2008		**1,735**	**3,165**	**4,900**

In HK$ million		2007		
	Note(s)	Attributable to equity holders of the Company	Minority interests	Total equity
At January 1, 2007		430	2,469	2,899
Translation exchange differences	33	240	120	360
Available-for-sale financial assets:				
– changes in fair value	33	25	–	25
– transfer to income statement on disposal	33	(95)	–	(95)
– transfer to income statement on impairment	33	7	–	7
Cash flow hedges:				
– effective portion of changes in fair value	33	631	–	631
– transfer from equity to income statement	33	(69)	–	(69)
Net income recognized directly in equity		739	120	859
Profit for the year		1,503	334	1,837
Total recognized income and expense for the year		2,242	454	2,696
Exercise of employee share options		125	–	125
Employee share-based compensation	33	8	–	8
Movements in equity arising from capital transactions		133	–	133
Dividend paid in respect of the previous year	14(b) & 33	(813)	–	(813)
Dividend declared and paid in respect of the current year	14(a) & 33	(440)	–	(440)
Dividends paid to minority shareholders of a subsidiary		–	(65)	(65)
Increase in minority interests arising from decrease in holding in a subsidiary		–	13	13
Decrease in minority interests arising from the disposal of subsidiaries		–	(72)	(72)
		(1,253)	(124)	(1,377)
At December 31, 2007		1,552	2,799	4,351

The notes on pages 56 to 137 form part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at December 31, 2008

In HK$ million	Note	**2008**	2007
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16	**17,092**	16,852
Investment properties	17	**3,785**	3,920
Interests in leasehold land	18	**593**	615
Properties held for/under development	19	**1,546**	1,671
Goodwill	20	**3,000**	3,016
Intangible assets	21	**1,885**	1,638
Interest in associates	23	**674**	655
Interest in jointly controlled companies	24	**268**	316
Held-to-maturity investments	25	**5**	6
Available-for-sale financial assets	25(a)	**244**	321
Amounts due from related companies	4(d)	**3**	9
Lease payments receivable	36	**–**	91
Deferred income tax assets	34(a)	**48**	216
Other non-current assets		**392**	471
		29,535	29,797
Current assets			
Properties under development	19	**331**	8,436
Properties for sale	19	**2,071**	697
Sales proceeds held in stakeholders' accounts	26(a)	**6,994**	2,425
Restricted cash	26(b)	**823**	682
Prepayments, deposits and other current assets	26(c)	**1,961**	2,007
Inventories	26(d)	**1,016**	854
Amounts due from related companies	4(d)	**35**	16
Derivative financial instruments	29	**230**	43
Financial assets at fair value through profit or loss	25(b)	**–**	12
Trade receivables, net	26(e)	**4,317**	2,709
Tax recoverable		**8**	1
Cash and cash equivalents	37(d)	**9,284**	3,678
		27,070	21,560
Current liabilities			
Short-term borrowings	26(f)	**–**	(10,174)
Derivative financial instruments	29	**–**	(13)
Trade payables	26(g)	**(1,700)**	(1,264)
Accruals and other payables		**(5,241)**	(4,785)
Amount payable to the Government under the Cyberport Project Agreement	28	**(4,981)**	(5,178)
Mobile carrier licence fee liabilities	35	**(76)**	(67)
Amounts due to related companies	4(d)	**(585)**	(539)
Gross amounts due to customers for contract work	26(h)	**(5)**	(7)
Advances from customers		**(2,224)**	(3,434)
Current income tax liabilities		**(1,911)**	(684)
		(16,723)	(26,145)
Net current assets/(liabilities)		**10,347**	(4,585)
Total assets less current liabilities		**39,882**	25,212

In HK$ million	Note	2008	2007
Non-current liabilities			
Long-term borrowings	27	**(31,745)**	(15,505)
Deferred income tax liabilities	34(a)	**(714)**	(2,150)
Deferred income		**(670)**	(719)
Defined benefit liability	31(a)(i)	**(7)**	(9)
Amount payable to the Government under the Cyberport Project Agreement	28	**(1,195)**	(1,741)
Mobile carrier licence fee liabilities	35	**(512)**	(532)
Other long-term liabilities		**(139)**	(205)
		(34,982)	(20,861)
Net assets		**4,900**	4,351
CAPITAL AND RESERVES			
Share capital	30	**1,693**	1,695
Reserves/(Deficit)	33	**42**	(143)
Equity attributable to equity holders of the Company		**1,735**	1,552
Minority interests		**3,165**	2,799
Total equity		**4,900**	4,351

Approved and authorized for issue by the Board of Directors on April 22, 2009 and signed on behalf of the Board by

Alexander Anthony Arena
Director

Chung Cho Yee, Mico
Director

The notes on pages 56 to 137 form part of these consolidated financial statements.

BALANCE SHEET

As at December 31, 2008

In HK$ million	Note	**2008**	2007
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16	**–**	2
Investments in subsidiaries	22	**12,089**	20,301
Other non-current assets		**–**	12
		12,089	20,315
Current assets			
Restricted cash	26(b)	**103**	106
Prepayments, deposits and other current assets		**31**	13
Amounts due from subsidiaries	22(a)	**19,408**	35,998
Cash and cash equivalents	37(d)	**5,838**	36
		25,380	36,153
Current liabilities			
Accruals and other payables		**(27)**	(8)
Current income tax liabilities		**(37)**	(51)
		(64)	(59)
Net current assets		**25,316**	36,094
Total assets less current liabilities		**37,405**	56,409
Net assets		**37,405**	56,409
CAPITAL AND RESERVES			
Share capital	30	**1,693**	1,695
Reserves	33	**35,712**	54,714
Total equity		**37,405**	56,409

Approved and authorized for issue by the Board of Directors on April 22, 2009 and signed on behalf of the Board by

Alexander Anthony Arena
Director

Chung Cho Yee, Mico
Director

The notes on pages 56 to 137 form part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2008

In HK$ million	Note	2008	2007
NET CASH GENERATED FROM OPERATING ACTIVITIES	37(a)	**6,462**	5,121
INVESTING ACTIVITIES			
Proceeds from disposals of property, plant and equipment		**36**	22
Purchases of property, plant and equipment		**(3,286)**	(3,102)
Purchases of investment properties		**–**	(4)
Purchases of other intangible assets		**(1,191)**	(796)
Acquisition of the business of a subsidiary (net of cash and cash equivalents acquired)	37(b)	**–**	(23)
Acquisition of interest in a jointly controlled company		**–**	(311)
Proceeds from disposal of subsidiaries (net of cash and cash equivalents disposed of)	37(c)	**–**	165
Payments for termination of derivative financial instruments		**(12)**	(94)
Proceeds from termination of derivative financial instruments		**97**	72
Purchases of available-for-sale financial assets		**(124)**	(176)
Proceeds from disposals of available-for-sale financial assets and held-to-maturity investments		**68**	251
Proceeds from disposals of financial assets at fair value through profit or loss		**12**	12
Interest received		**101**	191
Dividend received from a jointly controlled company and associates		**9**	10
Proceeds from expiry of leases		**112**	–
Instalments received from the disposal of unconsolidated subsidiaries		**–**	10
Loan repayment from a jointly controlled company		**10**	–
NET CASH USED IN INVESTING ACTIVITIES		**(4,168)**	(3,773)
FINANCING ACTIVITIES			
Proceeds from exercise of employee share options		**16**	137
Finance fees paid for new borrowings raised		**(237)**	(5)
New borrowings raised		**23,073**	10,278
Interest paid		**(1,439)**	(1,748)
Repayments of borrowings		**(16,647)**	(6,417)
Redemption of convertible note and bonds		**–**	(7,724)
Dividends paid to shareholders of the Company		**(1,389)**	(1,253)
Dividends paid to minority shareholders of a subsidiary		**–**	(65)
Repurchase of shares		**(49)**	–
Decrease in restricted cash		**3**	4,178
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES		**3,331**	(2,619)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**5,625**	(1,271)
Exchange differences		**(19)**	(2)
CASH AND CASH EQUIVALENTS			
Beginning of year		**3,678**	4,951
End of year	37(d)	**9,284**	3,678

The notes on pages 56 to 137 form part of these consolidated financial statements.

1 GENERAL INFORMATION

PCCW Limited (the "Company") was incorporated in the Hong Kong Special Administrative Region ("Hong Kong") and its securities have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since October 18, 1994. The address of its registered office is 39th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong. The principal activities of the Company and its subsidiaries (collectively the "Group") are the provision of local, mobile and international telecommunications services, Internet access services, interactive multimedia and pay-TV services, the sale and rental of telecommunications equipment, and the provision of computer, engineering and other technical services primarily, in Hong Kong, and also in mainland China and elsewhere in the Asia Pacific region; investments in, and development of, systems integration, network engineering, and technology-related businesses; and investments in, and development of, infrastructure and properties in Hong Kong, mainland China and elsewhere in the Asia Pacific and Middle East regions.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

a. Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. The Group has adopted the new and revised HKFRSs below, which are relevant to its operations, in the preparation of the financial statements. The adoption of these new and revised HKFRSs has not led to any significant changes in the accounting policies applied in these financial statements, and has no material effect on the Group's results and financial position for the current or prior accounting periods reflected in these financial statements.

– The HKAS 39, 'Financial instruments: Recognition and measurement', amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7, 'Financial instruments: Disclosures', introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from July 1, 2008. This amendment does not have any impact on the Group's financial statements, as the Group has not reclassified any financial assets.

– HK(IFRIC) – Int 11, 'HKFRS 2 – Group and treasury share transactions', provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have any impact on the Group's financial statements, as this interpretation is consistent with the accounting policies already adopted by the Group.

– HK(IFRIC) – Int 14, 'HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction', provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the Group's financial statements, as the Group has a pension deficit and is not subject to any minimum funding requirements.

The Group has not adopted any new standard or interpretation that is not yet effective for the current accounting period, details of which are set out in note 46.

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

b. Basis of preparation of the financial statements

The consolidated financial statements for the year ended December 31, 2008 comprise the financial statements of the Company and its subsidiaries, and the Group's interest in associates and jointly controlled companies.

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

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

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

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

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

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

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

c. Subsidiaries and minority interests

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

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

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

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

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

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

c. Subsidiaries and minority interests *(continued)*

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

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

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

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

d. Associates

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

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

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

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

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

e. Jointly controlled companies

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

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

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

e. Jointly controlled companies *(continued)*

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

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

f. Property, plant and equipment

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

– buildings held for own use which are situated on leasehold/freehold land, where the fair value of the building could be measured separately from the fair value of the leasehold/freehold land at the inception of the lease (see note 2(h)); and

– other items of plant and equipment.

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

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

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

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

Land and buildings	Over the shorter of the unexpired term of land lease and the estimated useful lives
Exchange equipment	5 to 15 years
Transmission plant	5 to 30 years
Other plant and equipment	Over the shorter of 1 to 17 years and the term of lease

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

g. Investment properties

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

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

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

g. Investment properties *(continued)*

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

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

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

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

h. Leased assets

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

i. Classification of assets leased to the Group

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

ii. Assets leased out under operating leases

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

iii. Operating lease charges

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

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

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

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

i. Properties held for/under development

Properties held for development represents interests in land held for future development which are stated at cost less impairment losses.

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

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

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

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

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

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

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

j. Properties for sale

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

k. Goodwill

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

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

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

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

l. Intangible assets (other than goodwill)

i. Customer acquisition costs

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

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

ii. Mobile carrier licence

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

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

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

iii. Other intangible assets

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

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

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

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

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

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

m. Investments in debt and equity securities

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

Investments in debt and equity securities are initially recognized at fair value plus transaction costs, except as indicated otherwise below. The fair value of quoted investments is based on current bid price. For unlisted securities or financial assets without an active market, the Group established fair value by using valuation techniques which variables include only data from observable markets. The investments are subsequently accounted for based on their classification as set out below:

i. Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are classified as current assets, if they are either held for trading or are expected to be realized within 12 months from the balance sheet date. Any attributable transaction costs are recognized in the income statement as incurred. At each balance sheet date, the fair value is remeasured, with any unrealized holding gains or losses arising from the changes in fair value being recognized in the income statement in the period in which they arise. The net gain or loss recognized in the income statement does not include any interest earned or dividends on the financial assets as these are recognized in accordance with the policies set out in notes 2(z)(vi) and 2(z)(viii) respectively.

ii. Held-to-maturity investments

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

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

iii. Available-for-sale financial assets

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

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

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

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

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

n. Impairment of assets

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

Investments in debt and equity securities (other than investments in subsidiaries, associates and jointly controlled companies: see note 2(n)(ii)) and other current and non-current receivables that are stated at cost or amortized cost or are classified as available-for-sale financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganization;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognized as follows:

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

– For trade and other current receivables and other financial assets carried at amortized cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortized cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

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

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

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

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

n. Impairment of assets *(continued)*

i. Impairment of investments in debt and equity securities and other receivables *(continued)*

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognized in respect of trade receivables, whose recovery are considered doubtful but not remote. In this case, the impairment loss for doubtful debts is recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in the income statement.

ii. Impairment of other assets

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

- property, plant and equipment;
- interests in leasehold land;
- intangible assets;
- investments in subsidiaries, associates and jointly controlled companies; and
- goodwill.

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

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

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

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

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

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

n. Impairment of assets *(continued)*

iii. Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange, the Group is required to prepare an interim financial report in compliance with HKAS 34 "Interim Financial Reporting", in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(n)(i) and 2(n)(ii)).

Impairment losses recognized in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognized had the impairment been assessed only at the end of the financial year to which the interim period relates.

o. Derivative financial instruments

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

p. Hedging

i. Fair value hedge

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

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

ii. Cash flow hedge

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

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

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

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

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

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

q. Programme costs

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

r. Inventories

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

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

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

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

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

s. Construction contracts

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

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

t. Trade and other receivables

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

u. Cash and cash equivalents

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

v. Trade and other payables

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

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

w. Borrowings

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

x. Convertible notes and bonds

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

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

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

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

y. Provisions and contingent liabilities

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

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

z. Revenue recognition

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

i. Telecommunications and other services

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

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

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

z. Revenue recognition *(continued)*

i. Telecommunications and other services *(continued)*

Up-front fees received for installation of equipment and activation of customer service are deferred and recognized over the estimated customer relationship period.

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

ii. Sales of goods

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

iii. Sales of properties

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

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

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

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

iv. Rental income from operating leases

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

v. Contract revenue

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

When the outcome of a construction contract cannot be estimated reliably, revenue is recognized only to the extent that it is probable the contract costs incurred will be recoverable.

vi. Interest income

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

vii. Commission income

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

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

z. Revenue recognition *(continued)*

viii. Dividend income

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

aa. Borrowing costs

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

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

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

bb. Income tax

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

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

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

    All deferred income tax liabilities, and all deferred income tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred income tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred income tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred income tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

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

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

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

bb. Income tax *(continued)*

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

- in the case of current income tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

- in the case of deferred income tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred income tax liabilities or assets are expected to be settled or recovered, intend to realize the current income tax assets and settle the current income tax liabilities on a net basis or realize and settle simultaneously.

cc. Employee benefits

i. Short-term employee benefits

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

ii. Retirement benefits

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

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

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

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

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

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

cc. Employee benefits *(continued)*

iii. Share-based payments

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

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

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

iv. Termination benefits

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

dd. Translation of foreign currencies

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

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

dd. Translation of foreign currencies *(continued)*

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

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

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

ee. Related parties

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

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

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

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

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

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

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

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

ff. Segment reporting

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

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

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

ff. Segment reporting *(continued)*

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

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

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Key sources of estimation uncertainty

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Notes 20, 31(a), 32 and 39 contain information about the assumptions and their risk factors relating to goodwill impairment, defined benefit liability, fair value of share options or shares granted and financial instruments. Other key sources of estimation uncertainty are discussed below:

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

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

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

During the year ended December 31, 2007, the Group performed an annual review to reassess the useful lives of certain exchange equipment, transmission plant and other plant and equipment of the Group, based on the expectations of the Group's operational management and technological trend. The reassessment has resulted in a change in the estimated useful lives of these assets. The Group considers this to be a change in accounting estimate and has therefore accounted for the change prospectively from July 1, 2007. As a result of this change in accounting estimate, the Group's profit for the year ended December 31, 2007 and the net assets as at December 31, 2007 have both been increased by HK$66 million.

ii. Impairment of assets (other than investments in debt and equity securities and other receivables)

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

- property, plant and equipment;
- interests in leasehold land;
- intangible assets;
- investments in subsidiaries, associates and jointly controlled companies; and
- goodwill.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

Key sources of estimation uncertainty *(continued)*

ii. Impairment of assets (other than investments in debt and equity securities and other receivables) *(continued)*

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

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

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

iii. Revenue recognition

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

During the year ended December 31, 2007, the Group re-assessed the expected customer relationship period. As a result of this re-assessment, the expected customer relationship period has been shortened. This change in accounting estimate has been accounted for prospectively from July 1, 2007. Accordingly, the Group's profit for the year ended December 31, 2007 and the net assets as at December 31, 2007 have both been increased by HK$255 million.

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

iv. Sales recognition on properties sold

When the inflow of economic benefits associated with the property sales transaction is assessed to be probable and significant risks and rewards of ownership of properties are transferred to purchasers, the Group recognized revenue in respect of the properties sold.

Management made judgement on whether the economic benefits associated with the property sales transaction will flow to the Group. Likelihood of inflow of economic benefits to the Group is demonstrated by the purchaser's commitment to pay, which in turn is supported by substantial initial investment that gives the purchaser a stake in the property sufficient that the risk of loss through default motivates the purchaser to honour his obligation to the Group. Inflow of economic benefits associated with the property sales transaction is also assessed by considering location of the property and the prevailing market price of similar properties.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

Key sources of estimation uncertainty *(continued)*

iv. Sales recognition on properties sold *(continued)*

Management has also made judgement on when significant risks and rewards of ownership of properties are transferred to purchasers. Risk and rewards of ownership of properties are transferred to purchasers upon execution of legally binding unconditional sales contracts upon which the beneficial interest in the properties passes to the purchasers.

The judgement on the likelihood of inflow of economic benefits associated with the property sales transaction and the transfer of risks and rewards of ownership of properties would affect the Group's profits for the year and the carrying value of properties under developments/held for sale.

v. Amount payable to the Government under the Cyberport Project Agreement

Pursuant to an agreement dated May 17, 2000 entered into with the Government of Hong Kong (the "Government") in respect of the Cyberport project (the "Cyberport Project Agreement"), the Government is entitled to receive approximately 65% of the surplus cash flow earned from the Cyberport project. The amounts paid and payable to the Government are part of the Group's costs of developing the Cyberport project.

The amount payable to the Government is a financial liability that is measured at amortized cost. Borrowing costs associated with this liability are capitalized as part of the property under development.

The estimated cost of developing the Cyberport project, including construction costs and the amounts paid and payable to the Government, is allocated to cost of properties sold on a systematic basis over the life of the project using a relative value approach. This approach considers the value of development costs attributable to phases for which revenue has been recognized to date relative to the total expected value of development costs for the development as a whole. The revision of estimates of these relative values during 2008 has resulted in the costs of properties sold recorded in the year ended December 31, 2008 being increased by HK$38 million.

vi. Deferred income tax

While deferred income tax liabilities are provided in full on all taxable temporary differences, deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. In assessing the amount of deferred income tax assets that need to be recognized, the Group considers future taxable income and ongoing prudent and feasible tax planning strategies. In the event that the Group's estimates of projected future taxable income and benefits from available tax strategies are changed, or changes in current income tax regulations are enacted that would impact the timing or extent of the Group's ability to utilize the tax benefits of net operating loss carry-forwards in the future, adjustments to the recorded amount of net deferred income tax assets and income tax expense would be made.

vii. Current income tax

The Group makes a provision for current income tax based on estimated taxable income for the year. The estimated income tax liabilities are primarily computed based on the tax computation as prepared by the Group. Nevertheless, from time to time, there are cases of disagreements with the tax authorities of Hong Kong and elsewhere on the tax treatment of items included in the tax computations and certain non-routine transactions. If the Group considers it probable that these disputes or judgements would result in different tax positions, the most likely amounts of the outcome will be estimated and adjustments to the income tax expense and income tax liabilities will be made accordingly.

viii. Recognition of intangible asset – Mobile carrier licence

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

Key sources of estimation uncertainty *(continued)*

ix. Estimated valuation of investment properties

The best evidence of fair value is current prices in an active market for similar leases and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair values estimates. In making its estimates, the Group considers both (i) information from the valuations of investment properties performed by external professional valuers by using the open market value approach and (ii) other principal assumptions including the receipt of contractual rentals, expected future market rentals and discount rates to determine the fair value of the investment properties. Had the Group used different future market rentals, discount rates and other assumptions, the fair value of the investment properties would be different and thus caused impact to the consolidated income statement. As at December 31, 2008, the fair value of the investment properties was HK$3,785 million.

4 RELATED PARTY TRANSACTIONS

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

In HK$ million		The Group	
	Note(s)	**2008**	2007
Telecommunications service fees, rental charges, facility management services and subcontracting charges received or receivable from a jointly controlled company	a & c	**104**	123
Telecommunications service fees and systems integration charges received or receivable from a substantial shareholder	a	**95**	60
Telecommunications service fees, outsourcing fees and rental charges paid or payable to a jointly controlled company	a & c	**773**	848
Telecommunications service fees paid or payable to a substantial shareholder	a	**139**	76
Key management compensation	b	**80**	124

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

b. Details of key management compensation

In HK$ million	The Group	
	2008	2007
Salaries and other short-term employee benefits	**76**	106
Post-employment benefits	**4**	4
Share-based compensation	**–**	14
	80	124

4 RELATED PARTY TRANSACTIONS *(CONTINUED)*

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 year ended December 31, 2007, no draw down was made by the JV under this facility and the facility expired on December 31, 2007 (see note 40(c)).

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 year ended December 31, 2008, the outsourcing fees paid or payable by the Group to the JV, determined on a cost plus basis, were HK$591 million (2007: HK$665 million).

d. Amounts due from/(to) related companies

Other than as specified in this note, notes 23 and 24 and a United States dollar denominated loan to the parent company of a substantial shareholder in the amount of US$1 million (approximately HK$9 million) (2007: US$2 million (approximately HK$16 million)) at a fixed interest rate of 4% per annum and with fixed terms of repayment up to 2010, balances with related parties are unsecured, non-interest bearing and have no fixed repayment terms.

5 TURNOVER

In HK$ million	The Group	
	2008	2007
Telecommunications and other service revenues	**19,602**	18,712
Amounts received and receivable in respect of goods sold	**2,541**	1,948
Amounts received and receivable in respect of properties sold	**9,551**	2,797
Amounts received and receivable from rental of investment properties	**257**	258
	31,951	23,715

6 SEGMENT INFORMATION

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

a. Business segments

During the year, the Group has transferred certain operations among business segments as a result of its operational re-organization. The Group comprises the following main business segments:

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

TV & Content includes interactive pay-TV service, Internet portal multimedia entertainment platform and the Group's directories operations in Hong Kong and mainland China.

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

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

Pacific Century Premium Developments Limited ("PCPD") covers the Group's property portfolio in Hong Kong and mainland China, including the Cyberport development in Hong Kong, and elsewhere in the Asia Pacific region.

Other Businesses include the Group's wireless broadband business in the United Kingdom ("UK Broadband") and all corporate support functions.

In HK$ million	TSS		TV & Content		Mobile		PCCW Solutions		PCPD		Other Businesses		Elimination		Consolidated	
	2008	2007*	**2008**	2007*	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
REVENUE																
External revenue	**16,958**	16,113	**1,989**	1,533	**1,744**	1,468	**1,317**	1,294	**9,876**	3,069	**67**	238	**–**	–	**31,951**	23,715
Inter-segment revenue	**507**	523	**250**	170	**–**	–	**549**	501	**67**	65	**19**	11	**(1,392)**	(1,270)	**–**	–
Total revenue	**17,465**	16,636	**2,239**	1,703	**1,744**	1,468	**1,866**	1,795	**9,943**	3,134	**86**	249	**(1,392)**	(1,270)	**31,951**	23,715
RESULTS																
Segment results	**5,118**	5,322	**(359)**	(397)	**(536)**	(618)	**137**	96	**692**	715	**(509)**	(385)	**–**	–	**4,543**	4,733
Unallocated corporate expenses															**(1,014)**	(710)
Interest income															**197**	429
Finance costs															**(1,473)**	(1,658)
Share of results of associates and jointly controlled companies	**27**	25	**(16)**	(12)	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**11**	13
Impairment losses on interests in jointly controlled companies	**–**	–	**(31)**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(31)**	–
Profit before income tax															**2,233**	2,807
Income tax															**(711)**	(970)
Profit for the year															**1,522**	1,837

6 SEGMENT INFORMATION *(CONTINUED)*

a. Business segments *(continued)*

In HK$ million	TSS		TV & Content		Mobile		PCCW Solutions		PCPD		Other Businesses		Elimination		Consolidated	
	2008	2007*	**2008**	2007*	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
OTHER INFORMATION																
Capital expenditure (including property, plant and equipment, investment properties, interests in leasehold land, intangible assets and goodwill) incurred during the year	**2,683**	2,301	**318**	386	**1,017**	851	**42**	110	**133**	44	**197**	170				
Depreciation and amortization	**2,338**	2,125	**274**	182	**762**	614	**58**	54	**30**	23	**196**	204				
Impairment losses recognized in income statement	**–**	–	**31**	58	**–**	–	**–**	–	**7**	11	**276**	66				
Significant non-cash expenses (excluding depreciation, amortization and impairment losses)	**118**	123	**53**	59	**68**	46	**–**	(9)	**45**	36	**4**	–				
ASSETS																
Segment assets	**19,356**	19,059	**1,135**	1,314	**4,897**	4,582	**1,132**	1,110	**17,857**	18,456	**1,288**	1,535	**–**	–	**45,665**	46,056
Interests in associates and jointly controlled companies	**674**	655	**260**	306	**–**	–	**–**	–	**–**	–	**8**	10	**–**	–	**942**	971
Unallocated corporate assets															**9,998**	4,330
Consolidated total assets															**56,605**	51,357
LIABILITIES																
Segment liabilities	**4,706**	4,660	**326**	337	**1,287**	1,188	**786**	599	**8,505**	10,374	**363**	378	**–**	–	**15,973**	17,536
Unallocated corporate liabilities															**35,732**	29,470
Consolidated total liabilities															**51,705**	47,006

* Certain comparative figures have been restated to conform with the business segment presentation in the current year. Certain interests in jointly controlled companies of the Group, previously included in TSS, has been reclassified to TV & Content. Certain assets previously included under TSS have been reclassified to TV & Content.

6 SEGMENT INFORMATION *(CONTINUED)*

b. Geographical segments

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

In HK$ million	Revenue from external customers		Segment assets		Capital expenditure incurred during the year	
	2008	2007	**2008**	2007	**2008**	2007
Hong Kong	**29,153**	21,229	**36,068**	36,346	**3,727**	3,614
Mainland China (excluding Hong Kong) and Taiwan	**1,734**	1,691	**6,147**	6,262	**97**	68
Others	**1,064**	795	**3,450**	3,448	**634**	299
	31,951	23,715	**45,665**	46,056	**4,458**	3,981

7 OTHER LOSSES, NET

In HK$ million	The Group	
	2008	2007
Net realized gains on disposals of available-for-sale financial assets	**60**	79
Net realized and unrealized gains on financial assets at fair value through profit or loss	**–**	8
Impairment loss on goodwill	**(12)**	(58)
Provision for impairment of investments	**(161)**	(60)
Write back of impairment loss on interest in an associate	**–**	1
Provision for rental guarantee *(note a)*	**(12)**	(36)
Net realized and unrealized fair value gains on derivative financial instruments	**28**	62
Fair value (losses)/gains on investment properties	**(396)**	3
Dividend income	**2**	–
Unclaimed dividend payable by a subsidiary written back	**–**	2
Net gain on cash flow hedging instruments transferred from equity	**30**	9
Other impairment loss	**–**	(20)
Others	**(3)**	7
	(464)	(3)

a. Under the formal property sale and purchase agreement dated December 21, 2004 in respect of the disposal of PCCW Tower, on completion of the disposal, there is a rental guarantee pursuant to which Partner Link Investments Limited, an indirect wholly-owned subsidiary of PCPD, has undertaken to the purchaser that it would pay a guaranteed net monthly rental of approximately HK$13.3 million to the purchaser for a period of 5 years commencing from February 8, 2005, i.e. the date following completion of the disposal of PCCW Tower. As at December 31, 2008, the Group did not have any provision (2007: HK$9 million) in relation to the rental guarantee over the remaining term of the rental guarantee period.

8 LOSSES ON PROPERTY, PLANT AND EQUIPMENT

In HK$ million	The Group **2008**	2007
Impairment losses on property, plant and equipment *(note a)*	**49**	5
Write-off of projects under construction	**54**	2
	103	7

a. Due to technology and market changes in the sectors in which the Group operates, certain of the Group's property, plant and equipment became obsolete. Accordingly, the Group recognized impairment losses of approximately HK$49 million (2007: HK$5 million) in the consolidated income statement for the year ended December 31, 2008.

9 PROFIT BEFORE INCOME TAX

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

a. Staff costs

In HK$ million	The Group **2008**	2007
Retirement costs for directors	**3**	4
Retirement costs for other staff		
– pension income for defined benefit retirement schemes *(note 31(a)(v))*	**(2)**	(2)
– contributions to defined contribution retirement scheme	**225**	194
	226	196
Equity-settled share-based payment expenses	**–**	8
Salaries, bonuses and other benefits	**2,461**	2,581
	2,687	2,785

9 PROFIT BEFORE INCOME TAX *(CONTINUED)*

b. Other items

In HK$ million	The Group **2008**	2007
Crediting:		
Dividend income from unlisted investments	**2**	–
Exchange gains, net	**51**	–
Less: Cash flow hedges: transferred from equity	**(104)**	–
Gain on disposal of property, plant and equipment	**–**	7
Gross rental income	**257**	258
Less: Outgoings	**(26)**	(18)
Charging:		
Losses on property, plant and equipment	**103**	7
Impairment loss for doubtful debts	**275**	218
Provision for inventory obsolescence	**1**	1
Depreciation of property, plant and equipment	**2,824**	2,795
Amortization of land lease premium		
– interests in leasehold land	**22**	30
– properties under development	**9**	–
Amortization of intangible assets	**841**	445
Cost of inventories sold	**2,494**	2,188
Cost of properties sold	**8,070**	1,932
Cost of sales, excluding inventories and properties sold	**7,286**	6,418
Loss on disposal of property, plant and equipment	**19**	–
Exchange losses, net	**–**	49
Less: Cash flow hedges: transferred from equity	**–**	(57)
Auditors' remuneration	**22**	21
Operating lease rental		
– equipment	**23**	68
– other assets (including property rentals)	**518**	479
Restructuring costs (included in general and administrative expenses)	**171**	–

10 FINANCE COSTS

In HK$ million	The Group **2008**	2007
Interest paid/payable for:		
Overdrafts and bank borrowings wholly repayable within 5 years	**489**	563
Other borrowings wholly repayable within 5 years	**556**	656
Other borrowings not wholly repayable within 5 years	**409**	424
Finance charges on mobile carrier licence fee liabilities	**64**	63
Other borrowing costs	**8**	1
Cash flow hedges: transferred from equity	**1**	(3)
	1,527	1,704
Interest capitalized in property, plant and equipment	**(54)**	(46)
	1,473	1,658

The capitalization rates used to determine the amount of interest eligible for capitalization for the year ranged from 4.67% to 5.83% (2007: 5.78% to 6.41%).

11 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Details of directors' emoluments are set out below:

a. Directors' emoluments – cash and cash equivalents paid/payable

In HK$ million	The Group 2008			
	Directors' fees	Salaries, allowances and benefits in kind	Bonuses[1]	Retirement scheme contributions
Executive directors				
Li Tzar Kai, Richard	–	–	–	–
Alexander Anthony Arena	–	18.75	–	1.41
Peter Anthony Allen	–	4.08[2]	–	0.61
Chung Cho Yee, Mico	–	2.40[3]	3.00[4]	–
Lee Chi Hong, Robert	–	11.00	18.34	1.13
Non-executive directors				
Sir David Ford	–	2.81	–	0.21
Lu Yimin [7]	0.12[8]	–	–	–
Zuo Xunsheng	0.20[5]	–	–	–
Li Fushen	0.20[6]	–	–	–
Zhang Chunjiang [9]	0.08[10]	–	–	–
Independent non-executive directors				
Professor Chang Hsin-kang	0.20	–	–	–
Dr The Hon Sir David Li Kwok Po	0.20	–	–	–
Sir Roger Lobo	0.20	–	–	–
Aman Mehta	0.40[11]	0.38	–	–
The Hon Raymond George Hardenbergh Seitz	0.30[12]	0.47	–	–
	1.90	39.89	21.34	3.36

Notes:

1 Bonuses in respect of 2008, paid in 2008 and payable in 2009.

2 Excludes remuneration for duties performed for related companies.

3 Excludes remuneration for duties performed for related companies.

4 Bonus paid by a subsidiary of PCPD.

5 Fee receivable as a non-executive director in 2008 was surrendered to a subsidiary of China United Network Communications Group Company Limited (formerly known as China Network Communications Group Corporation), in accordance with an arrangement between Mr Zuo Xunsheng and China United Network Communications Group Company Limited, a substantial shareholder of the Company.

6 Fee receivable as a non-executive director in 2008 was surrendered to a subsidiary of China United Network Communications Group Company Limited (formerly known as China Network Communications Group Corporation), in accordance with an arrangement between Mr Li Fushen and China United Network Communications Group Company Limited, a substantial shareholder of the Company.

7 Appointed as a non-executive director with effect from May 30, 2008.

8 Fee receivable as a non-executive director in 2008 was surrendered to a subsidiary of China United Network Communications Group Company Limited (formerly known as China Network Communications Group Corporation), in accordance with an arrangement between Mr Lu Yimin and China United Network Communications Group Company Limited, a substantial shareholder of the Company.

9 Resigned as a non-executive director with effect from May 28, 2008.

10 Fee receivable as a non-executive director in 2008 was surrendered to a subsidiary of China United Network Communications Group Company Limited (formerly known as China Network Communications Group Corporation), in accordance with an arrangement between Mr Zhang Chungjiang and China United Network Communications Group Company Limited, a substantial shareholder of the Company.

11 Includes HK$100,000 fee as Chairman of Nomination Committee and HK$100,000 fee as Chairman of Audit Committee.

12 Includes HK$100,000 fee as Chairman of Remuneration Committee.

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

a. Directors' emoluments – cash and cash equivalents paid/payable *(continued)*

In HK$ million	The Group 2007			
	Directors' fees	Salaries, allowances and benefits in kind	Bonuses[1]	Retirement scheme contributions
Executive directors				
Li Tzar Kai, Richard	–	–	–	–
Alexander Anthony Arena	–	16.93	8.50	1.26
Peter Anthony Allen	–	4.08[2]	–	0.61
Chung Cho Yee, Mico	–	2.40[3]	13.00[4]	–
Lee Chi Hong, Robert	–	11.00	19.85	0.99
So Chak Kwong, Jack [5]	–	9.28	–	0.38
Dr Fan Xingcha [6]	–	2.03	–	0.14
Non-executive directors				
Sir David Ford	–	2.79	0.13	0.22
Zhang Chunjiang	0.20[7]	–	–	–
Zuo Xunsheng [8]	0.10[9]	–	–	–
Li Fushen [10]	0.10[11]	–	–	–
Dr Tian Suning [12]	0.10	–	–	–
Independent non-executive directors				
Professor Chang Hsin-kang	0.20	–	–	–
Dr Fung Kwok King, Victor [13]	0.08	–	–	–
Dr The Hon Sir David Li Kwok Po	0.20	–	–	–
Sir Roger Lobo [14]	0.29[15]	–	–	–
Aman Mehta [16]	0.31[17]	0.43	–	–
The Hon Raymond George Hardenbergh Seitz	0.30[18]	0.43	–	–
	1.88	49.37	41.48	3.60

Notes:

1 Bonuses in respect of 2007, paid in 2007 and payable in 2008.
2 Excludes remuneration for duties performed for related companies.
3 Excludes remuneration for duties performed for related companies.
4 Bonus paid by a subsidiary of PCPD.
5 Resigned as executive director, Deputy Chairman and Group Managing Director with effect from April 30, 2007.
6 Resigned as executive director with effect from July 9, 2007.
7 Fee receivable as a non-executive director in 2007 was surrendered to a subsidiary of China United Network Communications Group Company Limited (formerly known as China Network Communications Group Corporation), in accordance with an arrangement between Mr Zhang Chunjiang and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
8 Appointed as non-executive director with effect from July 9, 2007.
9 Fee receivable as a non-executive director in 2007 was surrendered to a subsidiary of China United Network Communications Group Company Limited (formerly known as China Network Communications Group Corporation), in accordance with an arrangement between Mr Zuo Xunsheng and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
10 Appointed as non-executive director with effect from July 9, 2007.
11 Fee receivable as a non-executive director in 2007 was surrendered to a subsidiary of China United Network Communications Group Company Limited (formerly known as China Network Communications Group Corporation), in accordance with an arrangement between Mr Li Fushen and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
12 Resigned as non-executive director with effect from July 9, 2007.
13 Retired as independent non-executive director upon the conclusion of the annual general meeting held on May 31, 2007.
14 Resigned as Chairman of Audit Committee upon the conclusion of the board meeting held on November 23, 2007.
15 Includes HK$89,722 fee as Chairman of Audit Committee.
16 Appointed as Chairman of Audit Committee upon conclusion of the board meeting held on November 23, 2007.
17 Includes HK$100,000 fee as Chairman of Nomination Committee and HK$10,685 fee as Chairman of Audit Committee.
18 Includes HK$100,000 fee as Chairman of Remuneration Committee.

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

b. Directors' emoluments – share-based compensation

	The Group 2008								
	Grant date	Exercise price of share options HK$	Number of share options/ shares outstanding at beginning of year	Number of share options granted/ (lapsed)/ shares awarded/ (lapsed)	Number of share options exercised/ shares transferred	Number of share options/ shares outstanding at end of year	Number of share options vested	Share-based compensation charged to income statement *(Note ii)* HK$ million	Value of shares transferred *(Note i)* HK$ million
Executive directors									
Alexander Anthony Arena	July 25, 2003	4.3500	6,400,000	–	–	6,400,000	6,400,000	–	–
	February 8, 2005	4.4750	3,000,000	–	–	3,000,000	3,000,000	–	–
Peter Anthony Allen	July 25, 2003	4.3500	2,000,000	–	–	2,000,000	2,000,000	–	–
	February 8, 2005	4.4750	2,000,000	–	–	2,000,000	2,000,000	–	–
Chung Cho Yee, Mico	July 25, 2003	4.3500	5,695,200	–	–	5,695,200	5,695,200	–	–
	February 8, 2005	4.4750	3,000,000	–	–	3,000,000	3,000,000	–	–
Lee Chi Hong, Robert	July 25, 2003	4.3500	5,000,000	–	–	5,000,000	5,000,000	–	–
	February 8, 2005	4.4750	1,000,000	–	–	1,000,000	1,000,000	–	–
Non-executive director									
Sir David Ford	July 25, 2003	4.3500	1,000,000	–	–	1,000,000	1,000,000	–	–
	February 8, 2005	4.4750	2,000,000	–	–	2,000,000	2,000,000	–	–
								–	–

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

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

The Group

2007

	Grant date	Exercise price of share options HK$	Number of share options/ shares outstanding at beginning of year	Number of share options granted/ (lapsed)/ shares awarded/ (lapsed)	Number of share options exercised/ shares transferred	Number of share options/ shares outstanding at end of year	Number of share options vested	Share-based compensation charged to income statement (Note ii) HK$ million	Value of shares transferred (Note i) HK$ million
Executive directors									
Alexander Anthony Arena	July 25, 2003	4.3500	6,400,000	–	–	6,400,000	6,400,000	–	–
	February 8, 2005	4.4750	3,000,000	–	–	3,000,000	3,000,000	0.08	–
Peter Anthony Allen	July 25, 2003	4.3500	2,000,000	–	–	2,000,000	2,000,000	–	–
	February 8, 2005	4.4750	2,000,000	–	–	2,000,000	2,000,000	0.05	–
Chung Cho Yee, Mico	July 25, 2003	4.3500	5,695,200	–	–	5,695,200	5,695,200	–	–
	February 8, 2005	4.4750	3,000,000	–	–	3,000,000	3,000,000	0.08	–
Lee Chi Hong, Robert	July 25, 2003	4.3500	5,000,000	–	–	5,000,000	5,000,000	–	–
	February 8, 2005	4.4750	1,000,000	–	–	1,000,000	1,000,000	0.03	–
So Chak Kwong, Jack	July 25, 2003	4.3500	12,000,000	–	(12,000,000)	–	N/A	–	6.00
	February 8, 2005	4.4750	3,500,000	–	(3,500,000)	–	N/A	0.09	1.31
	September 15, 2006	4.9240	25,000,000	(25,000,000) [1]	–	–	N/A	–	–
	September 15, 2006	N/A	6,500,000	(2,519,109) [1]	(3,980,891)	–	N/A	13.12	19.23
Dr Fan Xingcha	September 1, 2005	5.2500	7,000,000	(7,000,000) [2]	–	–	N/A	–	–
Non-executive director									
Sir David Ford	July 25, 2003	4.3500	1,000,000	–	–	1,000,000	1,000,000	–	–
	February 8, 2005	4.4750	2,000,000	–	–	2,000,000	2,000,000	0.05	–
								13.50	26.54

Notes:

1 Upon the resignation as executive director with effect from April 30, 2007, the outstanding share options and shares awarded held in the capacity of director became zero.

2 Upon the resignation as executive director with effect from July 9, 2007, the outstanding share options held in the capacity of director became zero.

i. Value of shares transferred

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

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

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

ii. Share-based compensation charged to income statement

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

Total directors' emoluments for the year ended December 31, 2008, including amortized share-based compensation, were HK$66.49 million (2007: HK$109.83 million).

c. Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2007: four) are directors of the Company whose emoluments are disclosed in notes 11(a) and 11(b). The emoluments in respect of the non-director individual in 2008 and 2007 were as follows:

In HK$ million	The Group	
	2008	2007
Salaries, allowances and benefits in kind	**7.60**	3.30
Bonuses	**5.60**	3.50
Retirement scheme contributions	**0.69**	0.26
Share-based compensation	**–**	0.01
	13.89	7.07

12 INCOME TAX

a. Income tax in the consolidated income statement represents:

In HK$ million	The Group	
	2008	2007
Hong Kong profits tax		
– provision for current year	**1,845**	1,076
– over provision in respect of prior years	**(14)**	(55)
Overseas tax		
– provision for current year	**95**	45
– under provision in respect of prior years	**73**	2
Movement of deferred income tax *(note 34(a))*	**(1,288)**	(98)
	711	970

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits for the year.

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

During the year, as a result of the change in the Hong Kong corporation tax rate from 17.5% to 16.5% that will be effective from April 1, 2008, deferred income tax balances have been remeasured and the effect on the change in corporate income tax rate applicable to the Group's operations in Hong Kong was recognized in the consolidated income statement for the current year.

12 INCOME TAX *(CONTINUED)*

a. Income tax in the consolidated income statement represents: *(continued)*

On March 16, 2007, the National People's Congress of the PRC approved the Corporate Income Tax Law (the "new CIT Law"). The new CIT Law reduces 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 income tax liabilities for the Group's operations in the PRC as at December 31, 2007 is 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 consolidated income statement in the year ended December 31, 2007.

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

In HK$ million	The Group	
	2008	2007
Profit before income tax	**2,233**	2,807
Notional tax on profit before income tax, calculated at applicable tax rates	**368**	491
Income not subject to tax	**(36)**	(102)
Expenses not deductible for tax purposes	**234**	274
Tax losses not recognized	**132**	466
Effect of eliminated group transactions	**(32)**	–
Under/(Over) provision in prior years, net	**59**	(53)
Utilization of previously unrecognized tax losses	**(15)**	(23)
Recognition of previously unrecognized tax losses	**–**	(36)
Income not subject to tax for associates and jointly controlled companies	**(2)**	(2)
Reversal of deferred income tax due to change of tax rate	**(92)**	(90)
Current tax provision of overseas operations	**95**	45
Income tax expense	**711**	970

13 LOSS/PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Loss of HK$17,582 million (2007: Profit of HK$22,382 million) attributable to equity holders of the Company was dealt with in the financial statements of the Company.

14 DIVIDENDS

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

In HK$ million	**2008**	2007
Interim dividend declared and paid of 7 HK cents (2007: 6.5 HK cents) per ordinary share	**474**	440
Final dividend proposed after the balance sheet date – nil (2007: 13.5 HK cents) per ordinary share	**–**	915
Special dividend declared after the balance sheet date of 130 HK cents (2007: nil) per ordinary share	**8,804**	–
	9,278	1,355

The special dividend declared after the balance sheet date for 2008 has not been recognized as a liability as at the balance sheet date.

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

In HK$ million	**2008**	2007
Final dividend in respect of the previous financial year, approved and paid during the year, of 13.5 HK cents (2007: 12 HK cents) per ordinary share	**915**	813

15 EARNINGS PER SHARE

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

	2008	2007
Earnings (in HK$ million)		
Earnings for the purpose of basic and diluted earnings per share	**1,272**	1,503
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**6,772,942,656**	6,766,664,377
Effect of deemed issue of shares under the Company's share option schemes for nil consideration	**–**	8,685,600
Effect of shares purchased from the market under the Company's share award schemes	**2,519,109**	2,401,495
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**6,775,461,765**	6,777,751,472

16 PROPERTY, PLANT AND EQUIPMENT

In HK$ million	The Group					
	2008					
	Land and buildings	**Exchange equipment**	**Transmission plant**	**Other plant and equipment**	**Projects under construction**	**Total**
Cost						
Beginning of year	1,167	11,100	12,243	8,941	2,016	35,467
Additions	49	701	444	751	1,397	3,342
Transfers	25	160	184	422	(791)	–
Disposals	–	(260)	(28)	(106)	–	(394)
Write-off	–	–	–	–	(54)	(54)
Exchange differences	2	(62)	–	(22)	(76)	(158)
End of year	1,243	11,639	12,843	9,986	2,492	38,203
Accumulated depreciation and impairment						
Beginning of year	178	7,098	5,120	6,219	–	18,615
Charge for the year	44	1,120	764	896	–	2,824
Impairment losses	–	38	–	11	–	49
Disposals	–	(224)	(16)	(99)	–	(339)
Exchange differences	–	(16)	–	(22)	–	(38)
End of year	222	8,016	5,868	7,005	–	21,111
Net book value						
End of year	1,021	3,623	6,975	2,981	2,492	17,092
Beginning of year	989	4,002	7,123	2,722	2,016	16,852

16 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

In HK$ million	The Group					
	2007					
	Land and buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	Total
Cost						
Beginning of year	1,206	10,416	11,445	8,350	1,419	32,836
Additions						
– through acquisition of a subsidiary	9	–	–	3	–	12
– others	–	556	588	761	1,317	3,222
Transfers	–	237	252	231	(720)	–
Disposals	(48)	(113)	(44)	(414)	(1)	(620)
Write-off	–	–	–	–	(2)	(2)
Exchange differences	–	4	2	10	3	19
End of year	1,167	11,100	12,243	8,941	2,016	35,467
Accumulated depreciation and impairment						
Beginning of year	142	6,057	4,395	5,745	–	16,339
Charge for the year	47	1,149	766	833	–	2,795
Impairment losses	–	3	–	2	–	5
Disposals	(11)	(112)	(43)	(367)	–	(533)
Exchange differences	–	1	2	6	–	9
End of year	178	7,098	5,120	6,219	–	18,615
Net book value						
End of year	989	4,002	7,123	2,722	2,016	16,852
Beginning of year	1,064	4,359	7,050	2,605	1,419	16,497

No land and buildings were pledged as security for bank borrowings of the Group as at December 31, 2008 and 2007.

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

In HK$ million	The Group	
	2008	2007
Held in Hong Kong		
On long-term lease (over 50 years)	**86**	87
On medium-term lease (10–50 years)	**833**	849
Held outside Hong Kong		
Freehold	**58**	9
Leasehold		
On long-term lease (over 50 years)	**1**	–
On medium-term lease (10–50 years)	**43**	44
	1,021	989

16 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

In HK$ million	The Company **2008** **Other plant and equipment**
Cost	
Beginning of year	**5**
Disposals	**(3)**
End of year	**2**
Accumulated depreciation and impairment	
Beginning of year	**3**
Charge for the year	**1**
Disposals	**(2)**
End of year	**2**
Net book value	
End of year	**–**
Beginning of year	**2**

In HK$ million	The Company 2007 Other plant and equipment
Cost	
Beginning and end of year	5
Accumulated depreciation and impairment	
Beginning and end of year	3
Net book value	
End of year	2
Beginning of year	2

17 INVESTMENT PROPERTIES

In HK$ million	The Group **2008**	2007
Beginning of year	**3,920**	3,639
Additions	**–**	4
Exchange differences	**261**	274
Fair value (losses)/gains	**(396)**	3
End of year	**3,785**	3,920

Majority of the investment properties are held outside Hong Kong and they were revalued as at December 31, 2008 by an independent valuer, who is a fellow of the Royal Institution of Chartered Surveyors. The basis of valuation for these investment properties was open market value.

In the consolidated income statement, cost of sales includes HK$26 million (2007: HK$18 million) direct operating expenses that generate rental income while HK$11 million (2007: HK$3 million) direct operating expenses relating to investment properties that were unlet.

17 INVESTMENT PROPERTIES *(CONTINUED)*

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

In HK$ million	The Group 2008	2007
Held in Hong Kong		
On medium-term lease (10–50 years)	**6**	6
Held outside Hong Kong		
On long-term lease (over 50 years)	**748**	769
On medium-term lease (10–50 years)	**3,031**	3,145
	3,785	3,920

The Group leases out properties under operating leases. Majority of the leases typically run for a period of 2 to 15 years. None of the leases include contingent rentals.

As at December 31, 2008, the total future minimum lease payments in respect of investment properties under non-cancellable operating leases are receivable as follows:

In HK$ million	The Group 2008	2007
Within 1 year	**202**	199
After 1 year but within 5 years	**257**	330
After 5 years	**29**	38
	488	567

18 INTERESTS IN LEASEHOLD LAND

In HK$ million	The Group 2008	2007
Cost		
Beginning of year	**819**	1,326
Transfer to properties under development	**–**	(543)
Exchange differences	**–**	36
End of year	**819**	819
Accumulated amortization		
Beginning of year	**204**	186
Charge for the year	**22**	30
Transfer to properties under development	**–**	(12)
End of year	**226**	204
Net book value		
End of year	**593**	615
Beginning of year	**615**	1,140

18 INTERESTS IN LEASEHOLD LAND *(CONTINUED)*

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

In HK$ million	The Group **2008**	2007
Held in Hong Kong		
On long-term lease (over 50 years)	**89**	92
On medium-term lease (10–50 years)	**494**	512
Held outside Hong Kong		
On medium-term lease (10–50 years)	**10**	11
	593	615

The leasehold land transferred to properties under development in 2007 was subject to amortization over the period of the lease on a straight-line basis. The amount of amortization charge of the leasehold land had been capitalized as part of the cost of properties under development. As at December 31, 2008, the net book value of leasehold land included in properties under development was approximately HK$773 million (2007: HK$746 million).

19 PROPERTIES HELD FOR/UNDER DEVELOPMENT/FOR SALE

In HK$ million	The Group **2008**	2007
Properties under development *(note a)*	**1,017**	9,291
Properties held for development *(note b)*	**860**	816
	1,877	10,107
Less: Amounts classified as non-current assets	**(1,546)**	(1,671)
Amounts classified as current assets	**331**	8,436
Properties for sale classified as current assets *(note a)*	**2,071**	697
	2,402	9,133

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

b. Properties held for development represents freehold land in Japan and Thailand, which the Group intends for future development projects.

20 GOODWILL

In HK$ million	The Group 2008	2007
Cost		
Beginning of year	**3,074**	3,140
Additions	**–**	10
Disposals	**(8)**	(78)
Exchange differences	**4**	2
End of year	**3,070**	3,074
Accumulated impairment		
Beginning of year	**58**	–
Impairment loss	**12**	58
End of year	**70**	58
Carrying amount		
End of year	**3,000**	3,016
Beginning of year	**3,016**	3,140

Impairment tests for cash-generating units containing goodwill

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

In HK$ million	The Group 2008	2007
TSS		
PCCW Global	**585**	585
Omnilink	**120**	120
	705	705
TV & Content		
PCCW Directories	**162**	162
Mobile	**1,939**	1,939
PCCW Solutions	**6**	6
PCPD	**184**	180
Others	**4**	24
Total	**3,000**	3,016

(Amount expressed in Hong Kong dollars unless otherwise stated)

20 GOODWILL *(CONTINUED)*

Impairment tests for cash-generating units containing goodwill *(continued)*

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

Key assumptions used for value-in-use calculations:

		2008	
	Gross margin	Growth rate	Discount rate
PCCW Global	25.0%	3.0%	12.0%
PCCW Directories	53.2%	2.0%	13.0%
Mobile	63.8%	2.0%	14.5%
PCPD	19.2%	N/A	12.0%

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

There was no evidence of impairment arising from this review on goodwill as at December 31, 2008. The only circumstances where a reasonably possible change in key assumptions might have caused an impairment loss to be recognized was in respect of PCCW Global where:

– a fall of 1.5% in the gross margin; or
– an increase of 4.5% in the discount rate

would have caused an impairment loss to be recognized.

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

21 INTANGIBLE ASSETS

In HK$ million	The Group 2008						
	Trademarks	**Content licence**	**Wireless broadband licences**	**Mobile carrier licences**	**Customer acquisition costs**	**Others**	**Total**
Cost							
Beginning of year	**1,518**	**375**	**114**	**191**	**811**	**9**	**3,018**
Additions	**–**	**–**	**110**	**–**	**1,006**	**–**	**1,116**
Write-off	**–**	**–**	**–**	**–**	**(330)**	**–**	**(330)**
Exchange differences	**–**	**–**	**(61)**	**–**	**–**	**–**	**(61)**
End of year	**1,518**	**375**	**163**	**191**	**1,487**	**9**	**3,743**
Accumulated amortization and impairment							
Beginning of year	**559**	**375**	**100**	**22**	**316**	**8**	**1,380**
Charge for the year *(note a)*	**76**	**–**	**21**	**12**	**732**	**–**	**841**
Write-off	**–**	**–**	**–**	**–**	**(330)**	**–**	**(330)**
Exchange differences	**–**	**–**	**(33)**	**–**	**–**	**–**	**(33)**
End of year	**635**	**375**	**88**	**34**	**718**	**8**	**1,858**
Net book value							
End of year	**883**	**–**	**75**	**157**	**769**	**1**	**1,885**
Beginning of year	**959**	**–**	**14**	**169**	**495**	**1**	**1,638**

In HK$ million	The Group 2007							
	Trademarks	Content licence	Wireless broadband licences	Mobile carrier licences	Customer base	Customer acquisition costs	Others	Total
Cost								
Beginning of year	1,528	375	112	115	65	221	63	2,479
Additions	–	–	–	76	–	657	–	733
Write-off	(10)	–	–	–	(65)	(67)	(54)	(196)
Exchange differences	–	–	2	–	–	–	–	2
End of year	1,518	375	114	191	–	811	9	3,018
Accumulated amortization and impairment								
Beginning of year	491	375	77	10	49	66	62	1,130
Charge for the year *(note a)*	78	–	22	12	16	317	–	445
Write-off	(10)	–	–	–	(65)	(67)	(54)	(196)
Exchange differences	–	–	1	–	–	–	–	1
End of year	559	375	100	22	–	316	8	1,380
Net book value								
End of year	959	–	14	169	–	495	1	1,638
Beginning of year	1,037	–	35	105	16	155	1	1,349

a. The amortization charge for the year is included in “General and administrative expenses” in the consolidated income statement.

22 INVESTMENTS IN SUBSIDIARIES

In HK$ million	The Company **2008**	2007
Unlisted shares, at cost	**130,780**	148,401
Capital contribution in respect of employee share-based compensation	**283**	283
	131,063	148,684
Less: Provision for impairment in value	**(118,974)**	(128,383)
	12,089	20,301

The provision for impairment in value of HK$118,974 million (2007: HK$128,383 million) relates to certain subsidiaries of the Company which hold the Group's investments in subsidiaries, associates, jointly controlled companies, debt and equity securities.

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

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

a. Amounts due from subsidiaries

In HK$ million	The Company **2008**	2007
Amounts due from subsidiaries	**61,248**	54,274
Less: Provision for impairment	**(41,840)**	(18,276)
	19,408	35,998

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

As at December 31, 2008, the Group has financed the operations of certain of its PRC entities accounted for as subsidiaries in the form of shareholder's loans amounting to approximately US$113 million (2007: US$117 million) which have not been registered with the State Administration of Foreign Exchange. As a result, remittances in foreign currency of these amounts outside the PRC may be restricted.

22 INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

As at December 31, 2008, particulars of the principal subsidiaries of the Company are as follows:

Company name	Place of incorporation/ operations	Principal activities	Nominal value of issued capital/ registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly
HKT Group Holdings Limited ("HKTGH")	Cayman Islands	Investment holding	US$636,000,001	–	100%
Hong Kong Telecommunications (HKT) Limited ("HKT")	Hong Kong	Provision of telecommunications services	HK$2,488,200,001	–	100%
PCCW-HKT Limited	Hong Kong	Investment holding	HK$6,092,100,052	–	100%
HKT Media Holdings Limited	Cayman Islands	Investment holding	US$2	–	100%
HKT Solutions Holdings Limited	Cayman Islands	Investment holding	US$2	–	100%
PCCW-HKT Telephone Limited[1] ("HKTC")	Hong Kong	Telecommunications services	HK$2,163,783,209	–	100%
PCCW-HKT Business Services Limited	Hong Kong	Provision of business customer premises equipment and ancillary business services	HK$2	–	100%
PCCW-HKT Network Services Limited	Hong Kong	Global communications solutions and connectivity business	HK$3	–	100%
PCCW-HKT Technical Services Limited	Hong Kong	Provision of technical support services, electronics and communications engineering products and solutions	HK$500,002	–	100%
PCCW Media Limited	Hong Kong	Provision of pay television programme services, interactive multimedia services and publishing	HK$3,500,000,101 (HK$3,500,000,096 ordinary shares, HK$1 "A" Class share and HK$4 "B" Class shares)	–	100%
PCCW Teleservices (Hong Kong) Limited	Hong Kong	Provision of customer relationship management and customer contact management solutions and services	HK$12	–	100%
PCCW Teleservices Operations (Hong Kong) Limited	Hong Kong	Provision of customer relationship management and customer contact management solutions and services	HK$2	–	100%
廣州電盈綜合客戶服務技術發展有限公司[3]	The PRC	Customer service and consultancy	HK$53,803,000	–	100%
PCCW (Macau), Limitada	Macau	Selling customer premises equipment and related solutions, conducting systems integration projects and providing outsourced call center services	MOP2,000,000	–	75%
PCCW Global (HK) Limited	Hong Kong	Provision of telecommunication services and satellite transponder capacity	HK$10	–	100%
PCCW Global Limited	Hong Kong	Global Internet Protocol based communication service	HK$2	–	100%

(Amount expressed in Hong Kong dollars unless otherwise stated)

22 INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

Company name	Place of incorporation/ operations	Principal activities	Nominal value of issued capital/ registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly
PCCW Global, Inc.	U.S.A.	Supply of broadband Internet access solutions and web services	US$18	–	100%
PCCW Global (Singapore) Pte. Ltd.	Singapore	Telecommunication solutions related services	S$2	–	100%
PCCW Global (UK) Limited	United Kingdom	Telecommunication solutions resale business	GBP1	–	100%
電訊盈科(北京)有限公司[2]	The PRC	Systems integration, consulting and informatization project	US$10,250,000	–	100%
Unihub China Information Technology Company Limited[4]	The PRC	Selling of hardware and software and information system consulting services	RMB200,000,000	–	38.2%
PCCW Solutions Limited	Hong Kong	Computer services and provision of IP/IT related value-added services to business customers	HK$1,201	–	100%
電訊盈科信息技術(廣州)有限公司[3]	The PRC	Systems integration and technology consultancy	HK$5,000,000	–	100%
PCCW Business eSolutions Limited	Hong Kong	Provision of IP/IT related value-added services to business customers	HK$2	–	100%
PCCW Powerbase Data Center Services (HK) Limited	Hong Kong	Data center services	HK$2	–	100%
Power Logistics Limited	Hong Kong	Provision of logistics services	HK$100,000	–	100%
Pacific Century Premium Developments Limited	Bermuda/ Hong Kong	Investment holding	HK$240,745,987	–	61.53%
Cyber-Port Limited	Hong Kong	Property development	HK$2	–	61.53%
Beijing Jing Wei House and Land Estate Development Co., Ltd.[5]	The PRC	Property development	US$100,000,000	–	61.53%
北京啟夏房地產開發有限公司[3]	The PRC	Property development	US$78,000,000	–	61.53%
Talent Master Investments Limited	British Virgin Islands/ Hong Kong	Property development	US$1	–	61.53%
Nihon Harmony Resorts K.K.[2]	Japan	Project development	JPY405,000,000	–	61.53%
SUNDAY Holdings (Hong Kong) Corporation	British Virgin Islands	Investment holding	US$112	–	100%
PCCW Mobile HK Limited	Hong Kong	Provision of mobile services, and sales of mobile phones and accessories	HK$1,254,000,100 (HK$100 ordinary shares, and HK$1,254,000,000 non-voting deferred shares)	–	100%
UK Broadband Limited	United Kingdom	Public fixed wireless access licence businesses	GBP1	–	100%

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

Notes:

1 The subsidiary has accounting year end date of March 31. These subsidiaries prepare, for the purpose of consolidation, financial statements as at the same date as the Group.
2 The subsidiary has accounting year end date of June 30. This subsidiary prepares, for the purpose of consolidation, financial statements as at the same date as the Group.
3 Represents a wholly foreign owned enterprise.
4 Represents a sino-foreign equity joint venture.
5 Represents a sino-foreign cooperative joint venture.

23 INTEREST IN ASSOCIATES

In HK$ million	The Group 2008	2007
Share of net assets of associates, net of unrecognized losses	**734**	715
Loans due from an associate	**78**	78
Amount due from an associate	**34**	34
	846	827
Provision for impairment	**(172)**	(172)
	674	655
Investments at cost, unlisted shares	**975**	975

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

As at December 31, 2008, particulars of the principal associates of the Group are as follows:

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

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

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

In HK$ million	2008	2007
Total assets	**1,995**	1,764
Total liabilities	**(566)**	(378)
Turnover	**898**	761
Profit after income tax	**55**	63

During the year ended December 31, 2008, the Group has not recognized its share of losses of its associates amounting to approximately HK$2 million (2007: HK$1 million). As at December 31, 2008, the accumulated share of losses of the associates unrecognized by the Group was HK$10 million (2007: HK$8 million).

24 INTEREST IN JOINTLY CONTROLLED COMPANIES

In HK$ million	The Group 2008	2007
Share of net assets of jointly controlled companies, net of unrecognized losses	**3,105**	3,119
Loans due from jointly controlled companies	**8**	10
Amounts due from jointly controlled companies	**23**	24
	3,136	3,153
Provision for impairment	**(2,868)**	(2,837)
	268	316
Investments at cost, unlisted shares	**3,439**	3,449

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

As at December 31, 2008, particulars of the principal jointly controlled companies of the Group are as follows:

Company name	Place of incorporation	Principal activities	Nominal value of issued capital/ registered capital	Interest held by the Company Directly	Indirectly
Reach Ltd.	Bermuda	Provision of international telecommunication services	US$5,890,000,000	–	50%
網通寬帶網絡有限責任公司	The PRC	Provision of telecommunication services and IPTV services	RMB644,518,697	–	50%

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

In HK$ million	2008	2007
Non-current assets	**1,117**	1,307
Current assets	**637**	564
Total assets	**1,754**	1,871
Non-current liabilities	**(1,330)**	(279)
Current liabilities	**(801)**	(1,754)
Net liabilities	**(377)**	(162)
Turnover	**2,359**	2,532
Expenses	**(2,371)**	(2,479)
(Loss)/Profit before income tax	**(12)**	53
Income tax	**6**	3
(Loss)/profit for the year	**(6)**	56

25 INVESTMENTS

Investments are analyzed as follows:

In HK$ million	The Group 2008	2007
Held-to-maturity investments	**5**	6
Available-for-sale financial assets *(note a)*	**244**	321
Financial assets at fair value through profit or loss *(note b)*	**–**	12
	249	339

a. Available-for-sale financial assets

In HK$ million	The Group 2008	2007
Beginning of year	**321**	496
Additions	**139**	205
Disposals	**(24)**	(352)
Net (losses)/gains transfer (to)/from equity	**(31)**	32
Impairment losses recognized	**(161)**	(60)
End of year	**244**	321

In HK$ million	The Group 2008	2007
Listed equity securities – overseas	**17**	23
Unlisted equity securities	**227**	298
	244	321
Market value of listed equity securities	**17**	23

As at December 31, 2008, the Group's equity securities were individually reviewed for impairment by management. Consequently, provision for impairment of HK$161 million (2007: HK$60 million) was recognized in the consolidated income statement. The Group does not hold any collateral over these balances.

During the year, available-for-sale financial assets with a carrying value of approximately HK$24 million (2007: HK$352 million) were sold and there is no transfer from equity on disposal (2007: approximately HK$95 million (see note 33). As a result, a realized gain of approximately HK$60 million (2007: HK$79 million) was recognized and included in "Other losses, net" in the consolidated income statement.

No available-for-sale financial assets were pledged as security for bank borrowings of the Group as at December 31, 2008 and 2007.

25 INVESTMENTS *(CONTINUED)*

b. Financial assets at fair value through profit or loss

In HK$ million	The Group	
	2008	2007
Held for trading		
Listed equity securities in Hong Kong	–	12

26 CURRENT ASSETS AND LIABILITIES

a. Sales proceeds held in stakeholders' accounts

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

b. Restricted cash

Pursuant to the Cyberport Project Agreement, the Group has a restricted cash balance of approximately HK$720 million as at December 31, 2008 (2007: HK$575 million) held in specific bank accounts. The uses of the funds are specified in the Cyberport Project Agreement.

In addition, the Company has set aside a total cash balance of approximately HK$103 million as at December 31, 2008 (2007: HK$106 million) in connection with the release of undertakings in relation to the capital reduction of the Company.

As at December 31, 2007, the remaining HK$1 million represented a bank deposit placed by an indirect subsidiary of the Company as a security for a bank guarantee issued in respect of the use of facilities at the Hong Kong International Airport for the provision of mobile services.

c. Prepayments, deposits and other current assets

Included in prepayments, deposits and other current assets was prepaid programme costs of approximately HK$89 million as at December 31, 2008 (2007: HK$120 million).

d. Inventories

In HK$ million	The Group	
	2008	2007
Work-in-progress	**829**	678
Finished goods	**148**	138
Consumable inventories	**39**	38
	1,016	854

26 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

e. Trade receivables, net

In HK$ million	The Group 2008	2007
Trade receivables *(note i)*	**4,644**	2,987
Less: Impairment loss for doubtful debts *(note ii)*	**(327)**	(278)
Trade receivables, net	**4,317**	2,709

i. Aging analysis of trade receivables

In HK$ million	The Group 2008	2007
0 – 30 days	**3,122**	1,584
31 – 60 days	**372**	461
61 – 90 days	**162**	209
91 – 120 days	**101**	142
Over 120 days	**887**	591
	4,644	2,987

ii. Impairment loss for doubtful debts

The movement in the provision for doubtful debts during the year, including both specific and collective loss components, is as follows:

In HK$ million	The Group 2008	2007
Beginning of year	**278**	266
Impairment loss recognized	**275**	218
Uncollectible amounts written off	**(232)**	(206)
Exchange differences	**6**	–
End of year	**327**	278

As at December 31, 2008, the Group's trade receivables of HK$255 million (2007: HK$214 million) were individually determined to be impaired. The individually impaired receivable related to customers that were in financial difficulties and management assessed that only a portion of the receivable is expected to be recovered. Consequently, specific provision for doubtful debts of HK$241 million (2007: HK$191 million) was recognized. The Group does not hold any collateral over these balances.

26 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

e. Trade receivables, net *(continued)*

iii. Trade receivables that are not impaired

The aging analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

In HK$ million	The Group 2008	2007
Neither past due nor impaired	**2,956**	1,446
0 – 30 days past due	**387**	486
31 – 60 days past due	**159**	193
61 – 90 days past due	**118**	135
Over 90 days past due	**683**	426
Past due but not impaired	**1,347**	1,240
	4,303	2,686

Trade receivables that were neither past due nor impaired relates to a wide range of customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to customers that have a good track record with the Group or a sound credit quality. Based on past experience and regular credit risk assessment performed on all significant outstanding trade receivables, management believes that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

f. Short-term borrowings

In HK$ million	The Group 2008	2007
Bank borrowings	**–**	10,174
Secured	**–**	–
Unsecured	**–**	10,174

Please refer to note 42 for details of the Group's banking facilities.

26 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

g. Trade payables

The aging analysis of trade payables is set out below:

In HK$ million	The Group 2008	2007
0 – 30 days	**1,094**	721
31 – 60 days	**83**	134
61 – 90 days	**55**	29
91 – 120 days	**26**	24
Over 120 days	**442**	356
	1,700	1,264

h. Gross amounts due to customers for contract work

In HK$ million	The Group 2008	2007
Contract costs incurred plus attributable profits less foreseeable losses	**789**	779
Less: Estimated value of work performed	**(794)**	(786)
	(5)	(7)

The total amount of progress billings, included in the estimated value of work performed as at December 31, 2008, was approximately HK$794 million (2007: HK$786 million).

27 LONG-TERM BORROWINGS

In HK$ million	The Group 2008	2007
Repayable within a period		
– not exceeding one year	**–**	–
– over two years, but not exceeding five years	**27,905**	7,765
– over five years	**3,840**	7,740
	31,745	15,505
Representing:		
US$1,000 million 8% guaranteed notes due 2011 *(note a)*	**7,722**	7,765
US$500 million 6% guaranteed notes due 2013 *(note b)*	**3,856**	3,878
US$500 million 5.25% guaranteed notes due 2015 *(note c)*	**3,840**	3,862
Bank borrowings	**16,327**	–
	31,745	15,505
Secured	**–**	–
Unsecured	**31,745**	15,505

27 LONG-TERM BORROWINGS *(CONTINUED)*

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

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

The Notes due 2011 are unconditionally and irrevocably guaranteed by HKTC, HKTGH and HKT and will rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC, HKTGH and HKT.

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

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

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

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

Please refer to note 42 for details of the Group's banking facilities.

28 AMOUNT PAYABLE TO THE GOVERNMENT UNDER THE CYBERPORT PROJECT AGREEMENT

In HK$ million	The Group		
		2008	
	Government share under the Cyberport Project Agreement *(Note a)*	**Others**	**Total**
Beginning of year	**6,886**	**33**	**6,919**
(Deduction)/Addition to amount payable	**(379)**	**1**	**(378)**
Settlement during the year	**(358)**	**(7)**	**(365)**
End of year	**6,149**	**27**	**6,176**
Less: Amounts classified as current liabilities	**(4,954)**	**(27)**	**(4,981)**
Amounts classified as non-current liabilities	**1,195**	**–**	**1,195**

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

29 DERIVATIVE FINANCIAL INSTRUMENTS

In HK$ million	The Group 2008	2007
Current assets		
Cross currency swap contracts – cash flow hedges *(note a)*	**230**	43
Interest rate option contract – held for trading *(note b)*	**–**	–
	230	43
Current liabilities		
Cross currency swap contracts – cash flow hedges (note a)	**–**	(6)
Forward foreign exchange contract (note c)	**–**	(7)
	–	(13)

a. As at December 31, 2008, the Group had outstanding cross currency swap contracts with notional contract amounts of US$2,000 million (approximately HK$15,591 million) (2007: US$2,000 million (approximately HK$15,517million) at various rates, to manage the Group's exposure to foreign currency fluctuations.

The carrying amounts of cross currency swap contracts represent either the net fair value receivables, which are included in current assets, or net fair value payables, which are included in current liabilities, as at the balance sheet date.

All cross currency swap contracts outstanding as at December 31, 2008 with notional contract amounts of US$2,000 million (approximately HK$15,591 million) were designated as cash flow hedges of the foreign exchange rate risk in the Group's foreign currency denominated borrowings. Maturity of these swaps matches with the maturity of the underlying borrowings and has fixed the USD/HKD exchange rate at 7.7790 to 7.8014 for the notional amounts. As at December 31, 2007 certain cross currency swap contracts outstanding with notional contract amounts of US$2,000 million (approximately HK$15,517 million) were designated as cash flow hedges. The maturity of these swaps ranges from approximately 1 year to the full term of the underlying borrowings and have fixed the USD/HKD exchange rate at 7.7508 to 7.7790 for the notional amounts (see note 39(c)(i)). Gains and losses recognized in the hedging reserve under equity on these cross currency swap contracts will be continuously released to the income statement until the repayment of the borrowings.

b. The Group enters into interest rate option contracts to manage its interest rate risk. As at December 31, 2008, the total notional amount of such instruments was HK$15 million (2007: HK$20 million) and the carrying amount of such instruments representing the fair value was nil.

c. As at December 31, 2008, the Group has not entered into any forward foreign exchange contracts. As at December 31, 2007, the Group has outstanding forward foreign exchange contract to sell THB2,425 million at approximately US$70 million fixing the THB/USD forward rate at 34.113. The contract had incurred an estimated loss of HK$7 million as at December 31, 2007.

30 SHARE CAPITAL

	2008		2007	
	Number of shares	**Nominal value HK$ million**	Number of shares	Nominal value HK$ million
Authorized:				
Ordinary shares of HK$0.25 each				
Beginning and end of year	**10,000,000,000**	**2,500**	10,000,000,000	2,500
Issued and fully paid:				
Ordinary shares of HK$0.25 each				
Beginning of year	**6,778,627,153**	**1,695**	6,750,171,317	1,688
Exercise of employee share options *(note a)*	**3,667,501**	**1**	28,455,836	7
Repurchase of shares *(note b)*	**(10,000,000)**	**(3)**	–	–
End of year	**6,772,294,654**	**1,693**	6,778,627,153	1,695

a. During 2008, 3,667,501 (2007: 28,455,836) employee share options were exercised by the eligible option holders at their respective subscription prices for a total cash consideration of HK$16,259,067 (2007: HK$125,113,074) resulting in the issue of an aggregate of 3,667,501 (2007: 28,455,836) new ordinary shares of the Company of HK$0.25 each, details of which are set out in note 32(a)(iii).

b. 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.

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

31 EMPLOYEE RETIREMENT BENEFITS

a. Defined benefit retirement schemes

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

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

The latest independent actuarial valuation of the DB Schemes, prepared in accordance with HKAS 19, was carried out on December 31, 2008 and was prepared by Mr Aaron Wong of Watson Wyatt Hong Kong Limited, fellow of the Canadian Institute of Actuaries and also fellow of the Society of Actuaries, USA, using the projected unit credit method. The actuary was of the opinion that the fair value of the scheme assets was sufficient to cover 58.0% (2007: 81.4%) of the present value of the defined benefit obligations as at December 31, 2008.

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

In HK$ million	The Group	
	2008	2007
Present value of the defined benefit obligations *(note iii)*	**352**	253
Fair value of scheme assets *(note iv)*	**(204)**	(206)
	148	47
Unrecognized actuarial losses	**(141)**	(38)
Defined benefit liability in the consolidated balance sheet	**7**	9

No employer's contributions are expected to be paid to the scheme in 2009.

31 EMPLOYEE RETIREMENT BENEFITS *(CONTINUED)*

a. Defined benefit retirement schemes *(continued)*

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

	The Group	
	2008	2007
Equity securities	**–**	–
Cash or short-term fixed deposits	**–**	–
Other (insurance fund)	**100%**	100%
	100%	100%

As at December 31, 2008, the scheme assets do not include any ordinary shares issued by the Company (2007: Nil).

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

In HK$ million	The Group	
	2008	2007
Beginning of year	**253**	237
Benefits paid	**(11)**	(11)
Interest cost	**8**	9
Actuarial losses	**102**	18
End of year	**352**	253

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

In HK$ million	The Group	
	2008	2007
Beginning of year	**206**	208
Benefits paid	**(11)**	(11)
Expected return on scheme assets	**11**	11
Actuarial losses	**(2)**	(2)
End of year	**204**	206

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

In HK$ million	The Group	
	2008	2007
Interest cost	**8**	9
Expected return on scheme assets	**(11)**	(11)
Net actuarial losses recognized during the year	**1**	–
	(2)	(2)
The income is recognized in the following line item in the consolidated income statement:		
General and administrative expenses – retirement costs for other staff *(note 9(a))*	**(2)**	(2)
Actual return on scheme assets	**9**	9

31 EMPLOYEE RETIREMENT BENEFITS *(CONTINUED)*

a. Defined benefit retirement schemes *(continued)*

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

	The Group	
	2008	2007
Discount rate	**1.20%**	3.55%
Expected rate of return on scheme assets	**5.75%**	5.75%
Future pension increase	**3.00%**	3.00%

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

vii. Historical information:

In HK$ million		The Group	
	2008	2007	2006
Present value of the defined benefit obligations	**352**	253	237
Fair value of scheme assets	**(204)**	(206)	(208)
Deficit in the scheme	**148**	47	29
Experience (gains)/losses on scheme liabilities	**(1)**	3	2
Experience losses on scheme assets	**2**	2	4

b. Defined contribution retirement schemes

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

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

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

32 EQUITY COMPENSATION BENEFITS

a. Share option schemes of the Company

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

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

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

	2008		2007	
	Weighted average exercise price HK$	**Number of options**	Weighted average exercise price HK$	Number of options
Beginning of year	**10.20**	**144,366,771**	8.78	211,116,828
Exercised *(note iii)*	**4.43**	**(3,667,501)**	4.40	(28,455,836)
Cancelled/Lapsed *(note iv)*	**14.25**	**(2,727,540)**	6.64	(38,294,221)
End of year *(note ii)*	**10.28**	**137,971,730**	10.20	144,366,771
Exercisable at end of year	**10.28**	**137,971,730**	10.20	144,366,771

(Amount expressed in Hong Kong dollars unless otherwise stated)

32 EQUITY COMPENSATION BENEFITS *(CONTINUED)*

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

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

Date of grant	Vesting period	Exercise period	Exercise price HK$	Number of options **2008**	Number of options 2007
August 17, 1999 to September 15, 1999	August 17, 2000 to August 17, 2004	August 17, 2000 to August 17, 2009	11.7800	**13,192,793**	13,569,593
October 25, 1999 to November 23, 1999	October 25, 2000 to October 25, 2004	October 25, 2000 to October 25, 2009	22.7600	**1,529,600**	1,724,000
February 8, 2000 to March 8, 2000	February 8, 2001 to February 8, 2003	February 8, 2001 to February 8, 2010	75.2400	**86,700**	86,700
August 26, 2000 to September 24, 2000	May 26, 2001 to May 26, 2005	May 26, 2001 to August 26, 2010	60.1200	**6,461,600**	6,549,600
October 27, 2000 to November 25, 2000	March 15, 2001 to March 15, 2005	March 15, 2001 to October 27, 2010	24.3600	**8,159,626**	8,742,906
January 22, 2001 to February 20, 2001	January 22, 2001 to January 22, 2005	January 22, 2001 to January 22, 2011	16.8400	**10,932,439**	11,171,039
February 8, 2001	February 8, 2002 to February 8, 2004	February 8, 2002 to February 8, 2011	18.7600	**86,700**	86,700
April 17, 2001 to May 16, 2001	May 26, 2001 to May 26,2005	May 26, 2001 to April 17, 2011	10.3000	**1,050,920**	1,068,840
July 16, 2001 to September 15, 2001	July 16, 2002 to July 16, 2004	July 16, 2002 to July 16, 2011	9.1600	**210,280**	236,320
April 11, 2002	April 11, 2003 to April 11, 2007	April 11, 2003 to April 11, 2012	7.9150	**86,700**	86,700
August 1, 2002	August 1, 2003 to August 1, 2005	August 1, 2003 to July 31, 2012	8.0600	**200,000**	200,000
November 13, 2002	November 13, 2003 to November 13, 2005	November 13, 2003 to November 12, 2012	6.1500	**6,120,000**	6,500,000
July 25, 2003	July 25, 2004 to July 25, 2006	July 25, 2004 to July 23, 2013	4.3500	**51,455,872**	52,911,873
September 16, 2003	September 16, 2004 to September 16, 2006	September 16, 2004 to September 14, 2013	4.9000	**7,000**	157,000
February 8, 2005	February 8, 2006 to February 8, 2007	February 8, 2006 to February 7, 2009	4.4750	**38,391,500**	41,275,500
				137,971,730	144,366,771

32 EQUITY COMPENSATION BENEFITS *(CONTINUED)*

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

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

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

Range of exercise prices	**2008** Weighted average remaining contractual life (years)	**2008** Number of options	2007 Weighted average remaining contractual life (years)	2007 Number of options
HK$ 4.01 to 5.04	**2.65**	**89,854,372**	3.61	94,344,373
5.05 to 7.54	**3.87**	**6,120,000**	4.87	6,500,000
7.55 to 11.29	**2.55**	**1,547,900**	3.55	1,591,860
11.30 to 16.79	**0.63**	**13,192,793**	1.63	13,569,593
16.80 to 25.04	**1.87**	**20,708,365**	2.87	21,724,645
55.05 to 70.04	**1.65**	**6,461,600**	2.65	6,549,600
70.05 to 85.00	**1.10**	**86,700**	2.10	86,700
		137,971,730		144,366,771

iii. Details of share options exercised during the year

Exercise date	Exercise price HK$	Market value per share at exercise date HK$	**2008** Proceeds received HK$	**2008** Number of options	2007 Proceeds received HK$	2007 Number of options
January 4, 2007 to December 27, 2007	4.4750	4.62 to 5.14	**–**	**–**	47,620,712	10,641,500
January 5, 2007 to December 17, 2007	4.3500	4.56 to 5.14	**–**	**–**	77,492,362	17,814,336
January 8, 2008 to September 12, 2008	4.3500	4.40 to 5.16	**5,324,404**	**1,224,001**	–	–
February 4, 2008 to September 10, 2008	4.4750	4.50 to 5.16	**10,934,663**	**2,443,500**	–	–
			16,259,067	**3,667,501**	125,113,074	28,455,836

The weighted average share price at the date of exercise for share options exercised during the year was HK$4.95 (2007: HK$4.85).

(Amount expressed in Hong Kong dollars unless otherwise stated)

32 EQUITY COMPENSATION BENEFITS *(CONTINUED)*

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

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

Exercise period	Exercise price HK$	Number of options 2008	2007
August 17, 2000 to August 17, 2009	11.7800	**376,800**	567,465
October 25, 2000 to October 25, 2009	22.7600	**194,400**	–
August 17, 2000 to October 25, 2009	22.7600	**–**	1,460,400
May 26, 2001 to August 26, 2010	60.1200	**88,000**	21,600
March 15, 2001 to October 27, 2010	24.3600	**583,280**	475,376
January 22, 2001 to January 22, 2011	16.8400	**238,600**	1,502,800
May 26, 2001 to April 17, 2011	10.3000	**17,920**	53,720
July 16, 2002 to July 16, 2011	9.1600	**26,040**	36,360
October 15, 2002 to October 15, 2011	8.6400	**–**	120,000
October 11, 2002 to October 10, 2007	8.6165	**–**	1,200,000
November 13, 2003 to November 12, 2012	6.1500	**380,000**	180,000
July 25, 2004 to July 23, 2013	4.3500	**232,000**	280,000
September 16, 2004 to September 14, 2013	4.9000	**150,000**	20,000
February 8, 2006 to February 7, 2009	4.4750	**440,500**	376,500
September 1, 2006 to August 31, 2010	5.2500	**–**	7,000,000
September 15, 2007 to September 14, 2010	4.9240	**–**	25,000,000
		2,727,540	38,294,221

b. Share award schemes of the Company

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

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

	Number of shares 2008	2007
Beginning of year	**2,519,109**	6,500,000
Awards of vested shares to employees	**–**	(3,980,891)
End of year	**2,519,109**	2,519,109

32 EQUITY COMPENSATION BENEFITS *(CONTINUED)*

c. Share option schemes of PCPD

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

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

No share options have been granted under the 2005 PCPD Scheme during the years ended December 31, 2008 and 2007 and no share options were outstanding at December 31, 2008 under such scheme.

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

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

	2008		2007	
	Weighted average exercise price HK$	**Number of options**	Weighted average exercise price HK$	Number of options
Beginning of year	**2.375**	**5,000,000**	2.375	10,000,000
Exercised *(note iii)*	**–**	**–**	2.375	(5,000,000)
End of year *(note ii)*	**2.375**	**5,000,000**	2.375	5,000,000
Exercisable at end of year	**2.375**	**5,000,000**	2.375	5,000,000

(Amount expressed in Hong Kong dollars unless otherwise stated)

32 EQUITY COMPENSATION BENEFITS *(CONTINUED)*

c. Share option schemes of PCPD *(continued)*

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

Date of grant	Vesting period	Exercise period	Exercise price HK$	Number of options **2008**	Number of options 2007
December 20, 2004	December 20, 2004	December 20, 2004 to December 19, 2014	2.375	**5,000,000**	5,000,000
				5,000,000	5,000,000

The options outstanding at December 31, 2008 had a weighted average remaining contractual life of 6 years (2007: 7 years).

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

iii. Details of share options exercised during the year

Exercise date	Exercise price HK$	Market value per share at exercise date HK$	**2008** **Proceeds received HK$**	**Number of options**	2007 Proceeds received HK$	Number of options
May 17, 2007	2.375	2.46	–	–	11,875,000	5,000,000
			–	–	11,875,000	5,000,000

The weighted average share price at the date of exercise for share options exercised during the year 2007 was HK$2.46.

33 RESERVES/(DEFICIT)

In HK$ million	2008									
	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)/ Retained profits	Total
THE GROUP										
At January 1, 2008	7,968	21,254	–	(18)	143	327	115	16	(29,948)	(143)
Repurchase of shares	–	(49)	3	–	–	–	–	–	–	(46)
Exercise of employee share options	15	–	–	–	–	–	–	–	–	15
Premium arising from exercise of employee share options	6	–	–	–	(6)	–	–	–	–	–
Translation exchange differences	–	–	–	–	–	42	–	–	–	42
Profit for the year	–	–	–	–	–	–	–	–	1,272	1,272
Dividend paid in respect of the previous year	–	–	–	–	–	–	–	–	(915)	(915)
Dividend declared and paid in respect of the current year	–	–	–	–	–	–	–	–	(474)	(474)
Available-for-sale financial assets:										
– changes in fair value	–	–	–	–	–	–	–	(105)	–	(105)
– transfer to income statement on impairment	–	–	–	–	–	–	–	74	–	74
Cash flow hedges:										
– effective portion of changes in fair value	–	–	–	–	–	–	247	–	–	247
– transfer from equity to income statement	–	–	–	–	–	–	75	–	–	75
At December 31, 2008	7,989	21,205	3	(18)	137	369	437	(15)	(30,065)	42
THE COMPANY										
At January 1, 2008	7,968	21,254	–	–	142	–	–	–	25,350	54,714
Repurchase of shares	–	(49)	3	–	–	–	–	–	–	(46)
Exercise of employee share options	15	–	–	–	–	–	–	–	–	15
Premium arising from exercise of employee share options	6	–	–	–	(6)	–	–	–	–	–
Loss for the year	–	–	–	–	–	–	–	–	(17,582)	(17,582)
Dividend paid in respect of the previous year	–	–	–	–	–	–	–	–	(915)	(915)
Dividend declared and paid in respect of the current year	–	–	–	–	–	–	–	–	(474)	(474)
At December 31, 2008	7,989	21,205	3	–	136	–	–	–	6,379	35,712

33 RESERVES/(DEFICIT) *(CONTINUED)*

In HK$ million	2007									
	Share premium	Special capital reserve	Treasury stock	Employee share-based compensation reserve	Convertible note and bonds reserve	Currency translation reserve	Hedging reserve	Available-for-sale financial assets reserve	(Deficit)/ Retained profits	Total
THE GROUP										
At January 1, 2007	7,791	21,254	(37)	213	183	87	(447)	79	(30,381)	(1,258)
Exercise of employee share options	118	–	–	–	–	–	–	–	–	118
Premium arising from exercise of employee share options	59	–	–	(59)	–	–	–	–	–	–
Awards of vested shares under share award schemes to employees	–	–	19	(19)	–	–	–	–	–	–
Employee share-based compensation	–	–	–	8	–	–	–	–	–	8
Translation exchange differences	–	–	–	–	–	240	–	–	–	240
Profit for the year	–	–	–	–	–	–	–	–	1,503	1,503
Dividend paid in respect of the previous year	–	–	–	–	–	–	–	–	(813)	(813)
Dividend declared and paid in respect of the current year	–	–	–	–	–	–	–	–	(440)	(440)
Available-for-sale financial assets:										
– changes in fair value	–	–	–	–	–	–	–	25	–	25
– transfer to income statement on disposal	–	–	–	–	–	–	–	(95)	–	(95)
– transfer to income statement on impairment	–	–	–	–	–	–	–	7	–	7
Cash flow hedges:										
– effective portion of changes in fair value	–	–	–	–	–	–	631	–	–	631
– transfer from equity to income statement	–	–	–	–	–	–	(69)	–	–	(69)
Redemption of convertible bonds	–	–	–	–	(183)	–	–	–	183	–
At December 31, 2007	7,968	21,254	(18)	143	–	327	115	16	(29,948)	(143)
THE COMPANY										
At January 1, 2007	7,791	21,254	–	206	–	–	–	–	4,221	33,472
Exercise of employee share options	118	–	–	–	–	–	–	–	–	118
Premium arising from exercise of employee share options	59	–	–	(59)	–	–	–	–	–	–
Employee share-based compensation	–	–	–	(5)	–	–	–	–	–	(5)
Profit for the year	–	–	–	–	–	–	–	–	22,382	22,382
Dividend paid in respect of the previous year	–	–	–	–	–	–	–	–	(813)	(813)
Dividend declared and paid in respect of the current year	–	–	–	–	–	–	–	–	(440)	(440)
At December 31, 2007	7,968	21,254	–	142	–	–	–	–	25,350	54,714

The special capital reserve was created as a result of capital reduction in 2004 where the Company applied its entire share premium balance to eliminate accumulated losses as at June 30, 2004. The special capital reserve was not treated as realized profit and (for so long as the Company remains a listed company) was treated as an undistributable reserve for the purposes of section 79C of the Hong Kong Companies Ordinance.

On January 10, 2006, the High Court of Hong Kong (the "High Court") made an order which permitted the Company to distribute dividend out of the special capital reserve providing that the Company setting aside sums totalling approximately US$544 million (approximately HK$4,243 million) and HK$106 million for the sole purpose of discharging certain debts or liabilities of the Company existing at the date of the Capital Reduction, principally being the aggregate amount of principal, accrued interest and redemption premium payable on maturity of the US$450 million 1% guaranteed convertible bonds due 2007 issued by PCCW Capital No. 2 Limited. Those amounts were set aside, and the High Court order thereby became effective, on March 27, 2006. As at December 31, 2008, the total cash set aside was approximately HK$103 million (2007: HK$106 million) and has been recorded under "Restricted cash" in the balance sheet of the Company (see note 26(b)).

34 DEFERRED INCOME TAX

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

In HK$ million	2008							
	Accelerated tax depreciation	**Valuation adjustment resulting from acquisition of subsidiaries**	**Leasing partnership**	**Revaluation of properties**	**Deferred installation revenue**	**Tax losses**	**Others**	**Total**
THE GROUP								
Beginning of year	**1,663**	**342**	**94**	**121**	**(46)**	**(205)**	**(35)**	**1,934**
Charged/(Credited) to consolidated income statement *(note 12(a))*	**(1,246)**	**(40)**	**(45)**	**(133)**	**46**	**140**	**(10)**	**(1,288)**
Exchange differences	**13**	**–**	**–**	**8**	**–**	**–**	**(1)**	**20**
End of year	**430**	**302**	**49**	**(4)**	**–**	**(65)**	**(46)**	**666**

In HK$ million	2007							
	Accelerated tax depreciation	Valuation adjustment resulting from acquisition of subsidiaries	Leasing partnership	Revaluation of properties	Deferred installation revenue	Tax losses	Others	Total
THE GROUP								
Beginning of year	1,644	366	173	146	(130)	(170)	(24)	2,005
Charged/(Credited) to consolidated income statement *(note 12(a))*	3	(24)	(79)	(34)	84	(35)	(13)	(98)
Disposal of subsidiaries	–	–	–	–	–	–	4	4
Exchange differences	16	–	–	9	–	–	(2)	23
End of year	1,663	342	94	121	(46)	(205)	(35)	1,934

In HK$ million	The Group	
	2008	2007
Net deferred income tax assets recognized in the consolidated balance sheet	**(48)**	(216)
Net deferred income tax liabilities recognized in the consolidated balance sheet	**714**	2,150
	666	1,934

b. During the year, deferred income tax assets of HK$140 million have been reversed (2007: HK$36 million had been recognized) for tax losses carry-forward to the extent that realization of the related tax benefit through utilization against future taxable profits is probable, by considering the future taxable income and ongoing prudent and feasible tax planning strategies. The Group has unutilized estimated tax losses for which no deferred income tax assets have been recognized of HK$16,620 million (2007: HK$23,430 million) to carry forward for deduction against future taxable income. Estimated tax losses of HK$1,293 million (2007: HK$1,325 million) and HK$88 million (2007: HK$225 million) will expire within 1–5 years and after 5 years from December 31, 2008 respectively. The remaining portion of the tax losses, mainly relating to Hong Kong companies, can be carried forward indefinitely.

35 MOBILE CARRIER LICENCE FEE LIABILITIES

As at December 31, 2008, the Group had mobile carrier licence fee liabilities repayable as follows:

In HK$ million	The Group					
	2008			2007		
	Present value of the minimum annual fees	**Interest expense relating to future periods**	**Total minimum annual fees**	Present value of the minimum annual fees	Interest expense relating to future periods	Total minimum annual fees
Repayable within a period						
– not exceeding one year	**76**	**8**	**84**	67	7	74
– over one year, but not exceeding two years	**77**	**17**	**94**	71	14	85
– over two years, but not exceeding five years	**225**	**111**	**336**	205	101	306
– over five years	**210**	**213**	**423**	256	288	544
	588	**349**	**937**	599	410	1,009
Less: Amounts repayable within one year included under current liabilities	**(76)**	**(8)**	**(84)**	(67)	(7)	(74)
	512	**341**	**853**	532	403	935

36 LEASE PAYMENTS RECEIVABLE

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

In HK$ million	The Group	
	2008	2007
The net investment in relation to these finance leases comprises:		
Lease payments receivable	**91**	203
Less: Current portion of lease payments receivable (included in “Prepayments, deposits and other current assets” in the consolidated balance sheet)	**(91)**	(112)
	–	91

37 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

In HK$ million	The Group	
	2008	2007
Profit before income tax	**2,233**	2,807
Adjustment for:		
Write back of impairment loss on interest in an associate	**–**	(1)
Employee share-based compensation	**–**	8
Provision for inventory obsolescence	**1**	1
Interest income	**(197)**	(429)
Interest expense	**1,341**	1,617
Finance charges	**132**	41
Depreciation of property, plant and equipment	**2,824**	2,795
Net realized and unrealized gains on financial assets at fair value through profit or loss	**–**	(8)
Net realized gains on disposal of available-for-sale financial assets	**(60)**	(79)
Net realized and unrealized fair value gains on derivative financial instruments	**(28)**	(62)
Net gain on cash flow hedging instruments transferred from equity	**(30)**	(9)
Fair value losses/(gains) on investment properties	**396**	(3)
Provision for impairment of investments	**161**	60
Provision for impairment on interests in jointly controlled companies	**31**	–
Losses on property, plant and equipment	**103**	7
Provision for rental guarantee	**12**	36
Loss/(Gain) on disposal of property, plant and equipment	**19**	(7)
Impairment loss on goodwill	**12**	58
Impairment loss for doubtful debts	**275**	218
Other impairment loss	**–**	20
Amortization of intangible assets	**841**	445
Amortization of land lease premium		
– interests in leasehold land	**22**	30
– properties under development	**9**	–
Share of results of associates and jointly controlled companies	**(11)**	(13)
Exchange losses	**–**	52
Decrease/(Increase) in operating assets		
– properties held for/under development/for sale	**6,927**	(6,698)
– inventories	**(163)**	(314)
– trade receivables	**(1,883)**	(356)
– prepayments, deposits and other current assets	**(115)**	(573)
– sales proceeds held in stakeholders' accounts	**(4,569)**	1,047
– restricted cash	**(144)**	251
– amounts due from related companies	**(13)**	35
– other non-current assets	**79**	(128)
Increase/(Decrease) in operating liabilities		
– trade payables, accruals and other payables and deferred income	**810**	(160)
– amount payable to the Government under the Cyberport Project Agreement	**(743)**	3,414
– gross amounts due to customers for contract work	**(2)**	–
– amounts due to related companies	**46**	(347)
– other long-term liabilities	**(73)**	33
– advances from customers	**(1,210)**	2,016
CASH GENERATED FROM OPERATIONS	**7,033**	5,804

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

a. Reconciliation of profit before income tax to net cash generated from operating activities *(continued)*

In HK$ million	The Group 2008	2007
CASH GENERATED FROM OPERATIONS	**7,033**	5,804
Interest received	**208**	433
Income tax paid, net of tax refund		
– Hong Kong profits tax paid	**(706)**	(1,082)
– overseas profits tax paid	**(73)**	(34)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**6,462**	5,121

b. Acquisition of the business of a subsidiary

In HK$ million	The Group 2008	2007
Net assets acquired:		
Property, plant and equipment	–	12
Other non-current assets	–	2
Trade receivables, prepayments, deposits and other current assets	–	2
Trade payables, accruals and other payables	–	(3)
	–	13
Goodwill on acquisition	–	10
	–	23
Satisfied by:		
Cash	–	23
Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of the business of a subsidiary:		
Cash	–	23
Net cash outflow in respect of acquisition of the business of a subsidiary	–	23

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

c. Disposal of subsidiaries

In HK$ million	The Group	
	2008	2007
Net assets disposed of:		
Property, plant and equipment	–	72
Goodwill	–	78
Available-for-sale financial assets	–	48
Deferred income tax assets	–	4
Inventories	–	3
Trade receivables, prepayments, deposits and other current assets	–	19
Financial assets at fair value through profit or loss	–	33
Cash and cash equivalents	–	53
Trade payables, accruals and other payables	–	(16)
Advances from customers	–	(19)
Minority interests	–	(72)
Exchange reserve	–	15
	–	218
Satisfied by:		
Cash	–	218
Analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:		
Cash	–	218
Cash and cash equivalents disposed of	–	(53)
Net cash inflow in respect of disposal of subsidiaries	–	165

d. Analysis of cash and cash equivalents

In HK$ million	The Group		The Company	
	2008	2007	**2008**	2007
Cash and bank balances	**10,111**	4,367	**5,941**	142
Bank overdrafts	**(4)**	(7)	**–**	–
Restricted cash	**(823)**	(682)	**(103)**	(106)
Cash and cash equivalents as at December 31	**9,284**	3,678	**5,838**	36

38 CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders, to support the Group's stability and growth; and to earn a margin commensurate with the level of business and market risks in the Group's operation.

The Group monitors capital by reviewing the level of capital that is at the disposal of the Group ("adjusted capital"), taking into consideration the future capital requirements of the Group, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. Adjusted capital comprises all components of equity, other than currency translation reserve, hedging reserve relating to cash flow hedges and available-for-sale financial assets reserve.

The adjusted capital at December 31, 2008 and 2007 was as follows:

In HK$ million	The Group	
	2008	2007
Total equity	**4,900**	4,351
Excluding:		
Currency translation reserve	**(369)**	(327)
Hedging reserve	**(437)**	(115)
Available-for-sale financial assets reserve	**15**	(16)
Adjusted capital	**4,109**	3,893

The increase in adjusted capital during 2008 is due to the increase in retained earnings.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements, except for the debt covenant requirement of the loan agreements with external parties and the minimum capital requirement of a subsidiary regulated by Bermuda Monetary Authority.

39 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, and market (including foreign currency, interest rate) risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities. Exposures to these risks are controlled by the Group's financial management policies and practices described below.

a. Credit risk

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

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 unless there is a separate mutual agreement on extension of the credit period. The Group maintains a well-defined credit policy and individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors who have overdue payable are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 26(e).

Amounts due from related companies and other receivables are continuously monitored by assessing the credit quality of the counterparty, taking into account its financial position, past experience and other factors. Where necessary, impairment loss is made for estimated irrecoverable amounts. As at December 31, 2008, the amounts due from related companies and other receivables are fully performing.

39 FINANCIAL INSTRUMENTS *(CONTINUED)*

a. Credit risk *(continued)*

Investments, derivative financial instruments, interests receivable, lease payments receivable and cash transactions are executed with financial institutions or investment counterparties with sound credit ratings and the Group does not expect any significant counterparty risk. Moreover, credit limits are set for individual counterparties and periodic reviews are conducted to ensure that the limits are strictly followed.

As at December 31, 2008, regarding trade receivables for sales of properties, the Group has a certain concentration of credit risk as 22% of the total trade receivables (2007: 12%) are due from three customers. Save as disclosed above, the Group does not have a significant exposure to any other individual debtors or counterparties.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the consolidated balance sheet. Except for the guarantees given by the Group as disclosed in note 41, the Group does not provide any other guarantees which would expose the Group to credit risk.

b. Liquidity risk

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

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

In HK$ million	The Group 2008					
	Within 1 year or on demand	**More than 1 year but within 2 years**	**More than 2 years but within 5 years**	**More than 5 years**	**Total contractual undiscounted cash flow**	**Carrying amount**
Current liabilities						
Trade payables	**1,700**	**–**	**–**	**–**	**1,700**	**1,700**
Accruals and other payables	**5,241**	**–**	**–**	**–**	**5,241**	**5,241**
Amount payable to the Government under the Cyberport Project Agreement	**4,981**	**–**	**–**	**–**	**4,981**	**4,981**
Mobile carrier licence fee liabilities	**84**	**–**	**–**	**–**	**84**	**76**
Amounts due to related companies	**585**	**–**	**–**	**–**	**585**	**585**
Gross amounts due to customers for contract work	**5**	**–**	**–**	**–**	**5**	**5**
	12,596	**–**	**–**	**–**	**12,596**	**12,588**
Non-current liabilities						
Long-term borrowings	**1,423**	**1,423**	**30,391**	**4,197**	**37,434**	**31,745**
Amount payable to the Government under the Cyberport Project Agreement	**–**	**1,195**	**–**	**–**	**1,195**	**1,195**
Mobile carrier licence fee liabilities	**–**	**94**	**336**	**423**	**853**	**512**
Other long-term liabilities	**11**	**53**	**35**	**58**	**157**	**139**
	1,434	**2,765**	**30,762**	**4,678**	**39,639**	**33,591**
Total	**14,030**	**2,765**	**30,762**	**4,678**	**52,235**	**46,179**

39 FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Liquidity risk *(continued)*

In HK$ million	The Group 2007					
	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years	Total contractual undiscounted cash flow	Carrying amount
Current liabilities						
Short-term borrowings	10,198	–	–	–	10,198	10,174
Derivative financial instruments	65	(12)	(46)	(83)	(76)	13
Trade payables	1,264	–	–	–	1,264	1,264
Accruals and other payables	4,785	–	–	–	4,785	4,785
Amount payable to the Government under the Cyberport Project Agreement	5,178	–	–	–	5,178	5,178
Mobile carrier licence fee liabilities	74	–	–	–	74	67
Amounts due to related companies	539	–	–	–	539	539
Gross amounts due to customers for contract work	7	–	–	–	7	7
	22,110	(12)	(46)	(83)	21,969	22,027
Non-current liabilities						
Long-term borrowings	1,063	1,063	10,315	8,469	20,910	15,505
Amount payable to the Government under the Cyberport Project Agreement	–	1,741	–	–	1,741	1,741
Mobile carrier licence fee liabilities	–	85	306	544	935	532
Other long-term liabilities	38	101	52	59	250	205
	1,101	2,990	10,673	9,072	23,836	17,983
Total	23,211	2,978	10,627	8,989	45,805	40,010

In HK$ million	The Company					
	2008			2007		
	Within 1 year or on demand	**Total contractual undiscounted cash flow**	**Carrying amount**	Within 1 year or on demand	Total contractual undiscounted cash flow	Carrying amount
Current liabilities						
Accruals and other payables	**27**	**27**	**27**	8	8	8

39 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk

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

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

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

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

i. Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises when the Group's recognized assets and liabilities are denominated in a currency that is not the entity's functional currency.

All the Group's borrowings are mainly denominated in either Hong Kong dollars or United States dollars. As at December 31, 2008 and 2007, all of the Group's long-term borrowings and convertible bonds denominated in United States dollars were swapped into Hong Kong dollar by cross currency swap contracts. Given this, management does not expect that there will be any significant currency risk associated with the Group's borrowings. All cross currency swap contracts outstanding as at December 31, 2008 with an aggregate notional contract amount of US$2,000 million (approximately HK$15,591 million) were designated as cash flow hedges against foreign exchange rate risk, while certain cross currency swap contracts with notional contract amount of US$2,000 million (approximately HK$15,517 million) were designated as cash flow hedges during 2007.

In respect of trade receivables and payables held in currencies other than the functional currency of the operations to which they relate, the Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

39 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

i. Foreign currency risk *(continued)*

The following table details the Group's exposure at the balance sheet date to currency risk arising from significant recognized financial assets or liabilities denominated in foreign currencies.

In HK$ million	The Group			
	2008		2007	
	United States Dollars	**Chinese Renminbi**	United States Dollars	Chinese Renminbi
Trade receivables	**729**	**216**	546	198
Amounts due from related companies	**6**	**–**	35	–
Cash and cash equivalents	**5,181**	**287**	933	359
Trade payables	**(463)**	**(206)**	(528)	(234)
Amounts due to related companies	**(43)**	**–**	–	–
Bank borrowings	**–**	**–**	–	(24)
Long-term borrowings	**(15,418)**	**–**	(15,505)	–
Gross exposure arising from recognized financial (liabilities)/assets	**(10,008)**	**297**	(14,519)	299
Net financial liabilities denominated in respective entities' functional currencies	**(25)**	**(269)**	–	(237)
Notional amounts of cross currency swap contracts designated as cash flow hedges	**15,591**	**–**	15,517	–
Overall net exposure	**5,558**	**28**	998	62

As at December 31, 2008, if Hong Kong dollar had weakened/strengthened by 1% against the United States dollar, with all other variables held constant, the Group's profit after tax for the year would have been increased/decreased by approximately HK$46 million (2007: HK$8 million), mainly as a result of foreign exchange gains/losses on translation of United States dollar denominated recognized assets and liabilities which are not hedged by hedging instruments. Meanwhile, the hedging reserve as at December 31, 2008 would have been increased/decreased by approximately HK$156 million (2007: HK$155 million), mainly as a result of foreign exchange gains/losses on the long-term borrowings being hedged by cross currency swap contracts.

As at December 31, 2008, if Hong Kong dollar had weakened/strengthened by 5% against the Chinese renminbi, with all other variables held constant, the Group's profit after tax for the year would have been increased/decreased by approximately HK$1 million (2007: HK$3 million), mainly as a result of foreign exchange gains/losses on translation of Chinese renminbi denominated recognized assets and liabilities which are not hedged by hedging instruments.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the Group's exposure to currency risk for recognized assets and liabilities in existence at the date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any change in the movement in value of the United States dollar against other currencies. The analysis is performed on the same basis for 2007.

39 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

ii. Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises primarily from long-term borrowings. Borrowings at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. In addition, from time to time, the Group drew under long-term revolving credit and term facilities which are denominated in Hong Kong dollars and pay interest at floating rate.

The following table details the interest rate profile of the Group's borrowings at the balance sheet date, after taking into account the effect of cross currency swap contracts designated as cash flow hedging instruments.

In HK$ million, except for %	The Group			
	2008		2007	
	Effective interest rate %		Effective interest rate %	
Net fixed rate borrowings:				
Bank borrowings	**–**	**–**	5.43	24
Long term borrowings with cash flow hedging instruments	**6.84**	**15,418**	6.84	15,505
		15,418		15,529
Variable rate borrowings:				
Bank borrowings	**2.21**	**16,327**	4.03	10,150
Total borrowings		**31,745**		25,679

At December 31, 2008, if interest rates on Hong Kong dollar denominated borrowings had been increased/decreased by 10 basis points, with all other variables held constant, the Group's profit after tax for the year would have been decreased/increased by approximately HK$1 million (2007: HK$11 million), mainly as a result of higher/lower interest expense on floating rate borrowings.

The sensitivity analysis above has been determined assuming that the change in interest rate had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for the Group's floating rate borrowings in existence at that date. The 10 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2007.

39 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

iii. Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as held for trading securities (see note 25(b)) and available-for-sale equity securities (see note 25(a)). Other than unquoted equity securities held for strategic purposes, all of these investments are listed on a recognized stock exchange.

To manage its equity price risk, the portfolio is diversified in accordance with the limits set by the Group. Given the insignificant portfolio of listed equity securities held by the Group, management believes that the Group's equity price risk is minimal.

Performance of the Group's unquoted investments held for long term strategic purposes is assessed at least bi-annually against performance of their business as well as similar listed entities, based on the limited information available to the Group, together with an assessment of their relevance to the Group's long term strategic plans.

d. Fair values

All financial instruments are carried at amounts not materially different from their fair values as at December 31, 2008 and 2007 except as follows:

In HK$ million	**2008**		2007	
	Carrying amount	**Fair value**	Carrying amount	Fair value
THE GROUP				
Short-term borrowings	–	–	(10,174)	(10,174)
Long-term borrowings	**(31,745)**	**(30,118)**	(15,505)	(16,287)

e. Estimation of fair values

Fair value of financial instruments is estimated as follows:

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

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

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

40 COMMITMENTS

a. Capital

In HK$ million	The Group 2008	2007
Authorized and contracted for	**871**	1,820
Authorized but not contracted for	**924**	2,002
	1,795	3,822

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

In HK$ million	The Group 2008	2007
Investments	**104**	361
Investment properties	**31**	8
Property development for Cyberport project *(note i)*	**89**	1,573
Property development for other projects	**120**	190
Acquisition of property, plant and equipment	**1,449**	1,688
Others	**2**	2
	1,795	3,822

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

b. Operating leases

As at December 31, 2008, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

Land and buildings

In HK$ million	The Group 2008	2007
Within 1 year	**561**	528
After 1 year but within 5 years	**1,235**	611
After 5 years	**453**	299
	2,249	1,438

Network capacity and equipment

In HK$ million	The Group 2008	2007
Within 1 year	**133**	108
After 1 year but within 5 years	**113**	84
After 5 years	**14**	–
	260	192

Majority of the leases typically run for a period of 1 to 13 years. None of the leases include contingent rentals.

40 COMMITMENTS *(CONTINUED)*

c. Others

As set out in note 4(c), on June 17, 2004, the Company agreed to provide Reach Ltd. ("REACH") with a revolving working capital loan facility up to US$25 million (approximately HK$195 million). The interest receivable under this facility was at LIBOR plus 250 basis points. During the year ended December 31, 2007, none of this working capital loan facility was drawn down by REACH. The facility was secured and expired on December 31, 2007.

As at December 31, 2008, the Group has other outstanding commitments as follows:

In HK$ million	The Group	
	2008	2007
Purchase of rights to broadcast certain TV content	**2,018**	2,559
Purchase commitment on telecommunications services	**9**	110
Operating expenditure commitment	**289**	315
	2,316	2,984

41 CONTINGENT LIABILITIES

In HK$ million	The Group		The Company	
	2008	2007	**2008**	2007
Performance guarantee	**923**	841	**5**	543
Tender guarantee	**8**	2	**–**	2
Advance payment guarantee	**–**	1	**–**	1
Payment guarantee	**–**	59	**–**	47
Guarantee in lieu of cash deposit	**2**	1	**–**	1
Employee compensation	**6**	6	**6**	6
Guarantee indemnity	**11**	11	**–**	–
	950	921	**11**	600

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

42 BANKING FACILITIES

Aggregate banking facilities as at December 31, 2008 were HK$24,220 million (2007: HK$16,972 million) of which the unused facilities amounted to HK$7,620 million (2007: HK$6,798 million).

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

Security pledged for certain banking facilities includes:

In HK$ million	The Group	
	2008	2007
Bank deposit	**1**	25

An indirect subsidiary of the Company had been granted a banking facility amounting to approximately HK$20 million from a bank for the purpose of providing guarantee to the Government as at December 31, 2007. Such facility was to be secured by a bank deposit placed by the subsidiary from time to time to secure the amount of guarantee issued by the bank. No guarantee was issued by the bank under this banking facility as at December 31, 2007. There was no such banking facility as at December 31, 2008.

43 BUSINESS COMBINATIONS

On August 23, 2007, PCPD acquired 100% of the share capital of Nihon Harmony Resorts K.K., a company incorporated in Japan. The acquired business contributed revenue of HK$8 million and net loss of HK$7 million to PCPD for the period from August 23, 2007 to December 31, 2007.

Details of net assets acquired and goodwill are as follows:

	HK$ million
Purchase consideration in cash	179
Direct costs in relation to acquisition	3
Less: Purchase consideration in cash for properties held for development	(159)
Purchase consideration in cash for the business of a subsidiary	23
Less: Fair value of net assets acquired	(13)
Goodwill on acquisition *(note 20)*	10

The goodwill is attributable to future profit generated from the ski operations.

43 BUSINESS COMBINATIONS *(CONTINUED)*

The net assets of the business of a subsidiary at the acquisition date are as follows:

In HK$ million	Fair value	Carrying amount
Property, plant and equipment	12	12
Other non-current assets	2	2
Trade receivables, deposits, prepayments and other current assets	2	2
Trade payables, other payables and accrued charges	(3)	(3)
Net assets acquired	13	13

	HK$ million
Purchase consideration for the business of a subsidiary settled in cash	23
Cash and cash equivalents acquired	–
Cash outflow on acquisition of the business of a subsidiary *(note 37(b))*	23

44 POST BALANCE SHEET EVENT

The following events occurred subsequent to December 31, 2008 and up to the date of approval of these financial statements by the Board:

On November 3, 2008, Pacific Century Regional Developments Limited ("PCRD") and China Network Communications Group Corporation (succeeded by China United Network Communications Group Company Limited ("Unicom") after Unicom's merger with China Network Communications Group Corporation), two substantial shareholders of the Company, requested the Board to put forward a proposal to privatize the Company by way of a scheme of arrangement under Section 166 of the Hong Kong Companies Ordinance (the "Scheme"). Details of the Scheme are set out in the Scheme Document dated December 6, 2008 and the Supplemental Scheme Document dated January 12, 2009 (collectively the "Scheme Documents"). Under the Scheme, the Scheme Shares (being shares in the Company other than those held by PCRD, Pacific Century Group Holdings Limited, Pacific Century Diversified Limited, Eisner Investments Limited, Starvest Limited and China Netcom Corporation (BVI) Limited (and/or Unicom)) would be cancelled in exchange for the payment by the Joint Offerors under the Scheme (being Starvest Limited and China Netcom Corporation (BVI) Limited) to each holder of the Scheme Shares in the sum of HK$4.20 per Scheme Share in cash. The said cancellation price was subsequently revised to HK$4.50 as set out in the Supplemental Scheme Document dated January 12, 2009.

On April 22, 2009, the Court of Appeal overturned the judgment of the Court of First Instance of the High Court on April 6, 2009 to sanction the Scheme.

45 COMPARATIVE FIGURES

Certain comparative figures have been adjusted or re-classified as a result of the reclassification of certain operations among business segments, details of which are set out in note 6. Certain comparative figures have also been reclassified to conform with the current year's presentation.

46 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2008

Up to the date of approval of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ended December 31, 2008 and which have not been adopted in these financial statements:

		Effective for accounting periods beginning on or after
HKAS 1 (Revised)	Presentation of Financial Statements	January 1, 2009
HKAS 23 (Revised)	Borrowing Costs	January 1, 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements	July 1, 2009
HKAS 32 (Amendment) and HKAS 1 (Amendment)	Puttable Financial Instruments and Obligations Arising on Liquidation	January 1, 2009
HKFRS 1 (Amendment)	First Time Adoption of HKFRS and HKAS 27 – Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	January 1, 2009
HKFRS 2 (Amendment)	Share-based Payment Vesting Conditions and Cancellations	January 1, 2009
HKFRS 3 (Revised)	Business Combinations	July 1, 2009
HKFRS 8	Operating Segments	January 1, 2009
HK(IFRIC) – Int 13	Customer Loyalty Programmes	July 1, 2008
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estates	January 1, 2009
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation	October 1, 2008
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners	July 1, 2009
HK(IFRIC) – Int 18	Transfers of Assets from Customers	effective for transfers of assets from customers received after July 1, 2009

Apart from the above, a number of improvements and minor amendments to HKFRSs have also been issued by the HKICPA but they are not yet effective for the accounting period ended December 31, 2008 and have not been adopted in these financial statements.

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

FIVE YEAR FINANCIAL SUMMARY

For the year ended December 31, 2008

Results

In HK$ million	**2008**	2007	2006	2005	2004* (Restated)
TURNOVER BY PRINCIPAL ACTIVITY					
Telecommunications Services	**17,465**	16,636	15,374	15,048	15,323
TV & Content	**2,239**	1,703	1,002	696	479
Mobile	**1,744**	1,468	1,236	598	–
PCCW Solutions	**1,866**	1,795	1,652	1,579	1,866
Pacific Century Premium Developments Limited	**9,943**	3,134	7,263	5,127	5,831
Other Businesses	**86**	249	328	346	401
Elimination of inter-segment sales	**(1,392)**	(1,270)	(1,218)	(895)	(898)
	31,951	23,715	25,637	22,499	23,002
Cost of sales	**(17,850)**	(10,538)	(12,973)	(10,752)	(10,774)
General and administrative expenses	**(10,005)**	(9,144)	(8,904)	(7,767)	(8,192)
Other (losses)/gains, net	**(464)**	(3)	42	626	409
Losses on property, plant and equipment	**(103)**	(7)	(11)	(52)	(40)
Interest income	**197**	429	732	533	57
Finance costs	**(1,473)**	(1,658)	(2,008)	(2,234)	(2,018)
Share of results of equity accounted entities	**11**	13	37	121	147
Impairment losses on interests in associates and jointly controlled companies	**(31)**	–	–	(4)	(16)
Profit before income tax	**2,233**	2,807	2,552	2,970	2,575
Income tax	**(711)**	(970)	(920)	(1,103)	(999)
Profit for the year	**1,522**	1,837	1,632	1,867	1,576
Attributable to:					
Equity holders of the Company	**1,272**	1,503	1,252	1,595	1,556
Minority interests	**250**	334	380	272	20

Assets and Liabilities

As at December 31, in HK$ million	**2008**	2007	2006	2005	2004
Total non-current assets	**29,535**	29,797	29,711	27,574	31,481
Total current assets	**27,070**	21,560	19,715	25,709	13,524
Total current liabilities	**(16,723)**	(26,145)	(25,657)	(22,360)	(20,894)
Net current assets/(liabilities)	**10,347**	(4,585)	(5,942)	3,349	(7,370)
Total assets less current liabilities	**39,882**	25,212	23,769	30,923	24,111
Total non-current liabilities	**(34,982)**	(20,861)	(20,870)	(28,191)	(29,811)
Net assets/(liabilities)	**4,900**	4,351	2,899	2,732	(5,700)

* Certain comparative figures have been reclassified to conform with the current year's presentation.

SCHEDULE OF PRINCIPAL PROPERTIES

Year 2008

Property	Classification	Status	Existing Use	Gross Site Area (sq.m.)	Gross Floor Area (sq.m.)	Lease Term*	Group's Interest
The PRC							
Pacific Century Place, No.2A Gong Ti Bei Lu, Chaoyang District, Beijing, the PRC							
Tower A (except part of 6th, 8th, 10th and 13th Floor for own use)	Investment properties	Existing	Office for lease	29,351	39,752	Medium	62%
Tower B	Investment properties	Existing	Office for lease		20,104	Medium	62%
Tower C	Investment properties	Existing	Residential		21,304	Long	62%
Tower D	Investment properties	Existing	Residential		10,946	Long	62%
Podium	Investment properties	Existing	For lease		75,431	Medium	62%
Car parking spaces	Investment properties	Existing	For lease		784 spaces	Medium	62%
Hong Kong							
Part of 18th Floor of Paramount Building, No.12 Ka Yip Street, Chai Wan, Hong Kong	Investment properties	Existing	For lease	Not applicable	603	Medium	100%

* Lease term:
Long term: Lease not less than 50 years
Medium term: Lease less than 50 years but not less than 10 years

INVESTOR RELATIONS

FINANCIAL CALENDAR

Announcement of 2008 Annual Results	April 21, 2009
Closure of register of members for 2008 special dividend	May 11–13, 2009 (both dates inclusive)
Payment of 2008 special dividend	On or around May 18, 2009
2009 Annual General Meeting ("AGM")	June 26, 2009

DIRECTORS

The directors of the Company as at the date of the announcement of the 2008 Annual 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, FREng, GBS, JP
Dr The Hon Sir David Li Kwok Po, GBM, GBS, OBE, JP
Sir Roger Lobo, CBE, LLD, JP
Aman Mehta
The Hon Raymond George Hardenbergh Seitz

ANNUAL REPORT 2008

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

Shareholders who:

A) received the Annual Report 2008 by electronic means may request a printed copy, or
B) received the Annual Report 2008 in either English or Chinese may request a printed copy of the other language version

by writing to the Company c/o the Company's Share Registrars at:

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 Annual Report 2008 by electronic means through the Company's website and who, for any reason, have difficulty in receiving or gaining access to the Annual Report 2008 will promptly, upon request in writing or by email to the Company's Share Registrars – Computershare Hong Kong Investor Services Limited, be sent the Annual 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 reasonable prior notice in writing or by email 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.

ADR holders registered on the books of the ADR Depositary Bank in New York (including beneficial owners) can vote by proxy at the AGM by completing a voting instruction card provided by the Depositary Bank. The Depositary will tabulate and transmit the votes to the Company before the AGM.

Additional information and specific inquiries concerning the Company's ADRs should be directed to the Company's ADR Depositary 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

SHARE INFORMATION

Board lot:	1,000 shares
Issued shares as at December 31, 2008:	6,772,294,654 shares

DIVIDENDS

Dividends per share for the year ended December 31, 2008

Interim	HK$0.07 per ordinary share
Special	HK$1.30 per ordinary share

REGISTRARS

Computershare Hong Kong Investor Services Limited
Rooms 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.
PCCW American Depositary Receipts
Citibank Shareholder Services
250 Royall Street, Canton, MA 02021, USA
Toll free number: +1 877 248 4237
Telephone: +1 781 575 4555
Email: citibank@shareholders-online.com
Website: www.citi.com/dr

COMPANY SECRETARY

Philana WY Poon

REGISTERED OFFICE

39/F, PCCW Tower
TaiKoo Place, 979 King's Road
Quarry Bay, Hong Kong
Telephone: +852 2888 2888
Fax: +852 2877 8877

INVESTOR RELATIONS

Cheung F. Tsang, PhD
PCCW Limited
34/F, PCCW Tower
TaiKoo Place, 979 King's Road
Quarry Bay, Hong Kong
Telephone: +852 2514 5084
Email: ir@pccw.com

WEBSITE

www.pccw.com

FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements. These forward-looking statements include, without limitation, statements relating to revenues and earnings. The words "believe", "intend", "expect", "anticipate", "project", "estimate", "predict", "is confident", "has confidence" and similar expressions are also intended to identify forward-looking statements. These forward-looking statements are not historical facts. Rather, the forward-looking statements are based on the current beliefs, assumptions, expectations, estimates and projections of the directors and management of PCCW about the business and the industry and markets in which we operate.

These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and are difficult to predict. Consequently, actual results could differ materially from those expressed, implied or forecasted in the forward-looking statements. Factors that could cause actual results to differ materially from those reflected in the forward-looking statements include:

- possible negative effects of potentially new regulatory developments;
- increased competition in the Hong Kong telecommunications market and the continuing negative effects from the regulatory constraints that apply to us;
- our ability to execute our business strategy, including our ability to enter into business combinations, strategic investments and acquisitions;
- risks associated with our mobile business including intense competition in the mobile telecommunications market and the funding and development of our 3G business;
- increased competition in the Hong Kong pay-television market;
- our ability to secure or successfully implement new business opportunities or anticipated projects with CNC;
- risks associated with PCPD, our property development subsidiary, including future property development plans;
- our ability to implement our business plan as a consequence of our substantial debt;
- our exposure to interest rate risk;
- risks associated with the expansion of our operations outside Hong Kong; and
- our ability to introduce new technologies, to successfully respond to technological developments and to adapt existing technologies may be limited.

Reliance should not be placed on these forward-looking statements, which reflect the views of the directors and management of PCCW as at the date of this annual report only. We undertake no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after publication of this annual report.

PCCW Limited

39/F, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong
T: +852 2888 2888   F: +852 2877 8877   www.pccw.com

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and traded in the form of American Depositary Receipts on the Pink OTC Markets in the US (Ticker: PCCWY).