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CORPORATE PROFILE

PCCW Limited (PCCW or the Company) is a Hong Kong-based company which holds interests in telecommunications, media, IT solutions, property development and investment, and other businesses.

The Company holds a majority interest in the HKT Trust and HKT Limited, Hong Kong's premier telecommunications service provider. HKT meets the needs of the Hong Kong public and local and international businesses with a wide range of services including local telephony, local data and broadband, international telecommunications, mobile, and other telecommunications businesses such as customer premises equipment sale, outsourcing, consulting, and contact centers.

PCCW also owns a fully integrated multimedia and entertainment group in Hong Kong, which includes a highly successful IPTV operation, NOW TV. As the provider of Hong Kong's first quadruple-play experience, PCCW offers a range of innovative media content and services across four delivery platforms – fixed-line, broadband Internet access, TV and mobile.

Also wholly-owned by the Group, PCCW Solutions is a leading information technology outsourcing and business process outsourcing provider in Hong Kong and mainland China.

In addition, PCCW holds a majority interest in Pacific Century Premium Developments Limited, and overseas investments including the wholly-owned UK Broadband Limited.

Employing approximately 20,100 staff, PCCW maintains a presence in Hong Kong, mainland China as well as other parts of the world.

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 OTC Markets Group Inc. in the U.S. (Ticker: PCCWY).

SIGNIFICANT EVENTS IN 2011

JANUARY

NOW TV rolls out NOW Video Express through which customers may view Hollywood blockbusters on an on-demand basis.

FEBRUARY

NOW TV's self-produced channel, NOW 101, debuts with an exciting program lineup including entertainment and travel programs as well as Asia's first interactive TV quiz show ATM.

MARCH

PCCW announces that profit attributable to equity holders of the Company for the year ended December 31, 2010 amounted to HK\$1,926 million. A final dividend of 10.2 HK cents per share is declared.

Mr. Edmund Tse is re-designated from an Independent Non-Executive Director to a Non-Executive Director.

APRIL

NOW TV extends its exclusive broadcast of the Spanish football league, La Liga, until the 2014/15 season.

MAY

PCCW Solutions wins a contract to provide the Middle South Regional Air Traffic Management Bureau of Civil Aviation Administration of China with a Control Tower Simulator (CTS) solution.

JUNE

The MTR Corporation awards PCCW Solutions a contract to design, develop and implement a new Engineering Work and Traffic Information Management System.

NOW TV acquires the exclusive Hong Kong broadcast rights to the Rugby World Cup 2011 to broadcast all 48 matches live in HD.

JULY

NOW TV obtains the exclusive Hong Kong media rights to all 31 matches of UEFA EURO 2012.

AUGUST

PCCW announces that profit attributable to equity holders of the Company for the six months to June 30, 2011 amounted to HK\$824 million. An interim dividend of 5.3 HK cents per share is declared.

SEPTEMBER

PCCW Solutions wins a contract to provide an integrated total solution for the Computerised Social Security System II (CSSS II) of the Social Welfare Department.

NOW TV launches a new self-produced channel, NOW Entertainment Channel, offering entertainment news, reality TV shows, feature stories and interviews.

Hong Kong's first ever local football channel is launched by NOW TV and the Hong Kong Football Association.

NOVEMBER

PCCW spins off HKT for a separate listing on the Hong Kong stock exchange. PCCW still holds a majority interest in HKT.

Mr. George Chan is appointed an Executive Director and the Group Managing Director of PCCW; Non-Executive Director Mr. Lu Yimin is appointed the Deputy Chairman of the Board; Mr. Li Gang is appointed a Non-Executive Director; and Mr. David Wei is appointed an Independent Non-Executive Director.

NOW TV and HaiRun Media & Entertainment Group Limited announce the formation of a joint venture company to launch NOW HaiRun Channel.

DECEMBER

NOW TV forms partnership with Hunan Broadcasting System to launch NOW Mango Channel which broadcasts some of the top rated infotainment programs in China.

PCCW receives an award for high service hours of volunteer services from the Social Welfare Department.

AWARDS

Award	Awardee	Scheme Organizer
BBWF Infovision Award Broadband Home: Appliances, Devices, Home Networks & Services	nOW TV	Broadband World Forum
The Best Cloud Innovation Award 2011	PCCW Solutions	IT Xinmen and IT Time
Caring Company	PCCW	The Hong Kong Council of Social Service
2010 China Top 20 IT Outsourcing Service Enterprises No. 1 in 2010 China IT Outsourcing Service Enterprises	PCCW Solutions	China Software & Services Outsourcing Network
17th Communicator Awards Interactive Multimedia: Entertainment	nOW TV	International Academy of the Visual Arts
Computerworld HK Awards 2011 Best IT Hosting and Outsourcing Award	PCCW Solutions	Computerworld Hong Kong
43rd Distinguished Salesperson Award Distinguished Salesperson Award Outstanding Young Salesperson Award Best Presentation Award	Three A&IS staff members	Hong Kong Management Association
eBrands Awards 2011 The Best of IPTV Service	nOW TV	e-Zone
Elite Awards The Best TV Channel	nOW TV	Ming Pao Weekly
e-Trend Award 2010 Communications: Website, Service and Others category – nOW TV SPORTS Timetable App	nOW TV	Ming Pao
Friends of EcoPark Award 2010/2011	PCCW	EcoPark and Environmental Protection Department
Good Housekeeping Merit Award	PCCW Solutions	Occupational Safety and Health Council
IAOP Global Outsourcing 100 No. 17 in IAOP Global Outsourcing 100	PCCW Solutions	International Association of Outsourcing Providers
International Design Awards 2010 Graphic: Interface Design	nOW TV	International Design Awards
MIS Strategic 100 Top 20 Regional IT Companies	PCCW Solutions	MIS Asia
The Outstanding Corporate Strategy Awards 2011	nOW TV	East Week
SMB World Awards 2011 Best IT Outsourcing Services Provider	PCCW Solutions	SMB World
TOUCH Brands 2011	nOW TV	East Touch

KEY FIGURES

FINANCIAL HIGHLIGHTS

For the year ended December 31, 2011

In HK\$ million (except for per share data)

	2010	2011
Turnover		
Core revenue*	21,467	22,512
PCPD	1,495	2,126
	22,962	24,638
Cost of sales	(10,533)	(11,397)
General and administrative expenses	(8,924)	(9,604)
Other gains, net	1,217	143
Interest income	27	71
Finance costs	(1,587)	(1,565)
Share of results of associates	47	44
Share of results of jointly controlled companies	(129)	(12)
Profit before income tax	3,080	2,318
Income tax	(756)	(542)
Profit for the year	2,324	1,776
Attributable to:		
Equity holders of the Company	1,926	1,607
Non-controlling interests	398	169
Earnings per share (in HK cents)		
Basic	27.75	22.10
Diluted	27.75	22.10
Dividends per share (in HK cents)		
Interim dividend	5.10	5.30
Final dividend proposed after the balance sheet date	10.20	10.60
EBITDA ¹		
Core EBITDA*	7,069	7,252
PCPD	284	333
	7,353	7,585

*Note: Please refer to page 21. Note 1: Please refer to page 23.

STATEMENT FROM THE CHAIRMAN

Last year, the global economic environment was impacted by the Euro Zone debt problems, which have straddled into 2012 and cast uncertainties on the pace of economic recovery and development. Nevertheless, backed by the Mainland market, the Hong Kong economy still grew by 5% in real terms last year, with improvement in local employment.

Although the world financial markets went through a very challenging period in 2011, the Group made the significant achievement of unlocking the value of its assets for shareholders with the spin-off of the telecommunications business. The listing of HKT last November on the Hong Kong stock exchange attracted many quality investors, including long-term institutions who recognize the stability and strengths of our telecom business.

The exercise has enabled HKT to deleverage substantially and strengthened PCCW Group's financial resources as a whole. Visibility of the higher growth businesses of media and IT solutions within the Group has also been enhanced for their future development.

Last year, NOW TV further strengthened its leadership as a provider of premium news, sports and entertainment content. It continuously expanded its comprehensive suite of programming, including more local content production, and enriched our audience's viewing experience with interactivity and multi-screen access. In the past months, NOW TV has also joined hands with leading media companies in mainland China to launch new entertainment channels. Looking ahead, the expertise and strong brand position of PCCW's media business will enable it to explore more exciting opportunities locally and outside of Hong Kong.

Another major growth area, the IT solutions business under PCCW Solutions, continued its notable contribution to the Group with new project wins in 2011, including contracts for government departments and the private sector which provide long-term recurrent revenues. PCCW Solutions is a pioneering provider in the fast-growing cloud computing and data center businesses. Its pool of highly sophisticated professionals will ensure that it can always stay at the forefront of the industry.

In 2011, the telecom business, now separately listed, continued to register strong growth in fiber and other high-speed broadband services and in the mobile segment, the latter because of demand related to smartphones and tablets. As the economic fundamentals in Hong Kong remained sound, telecom services for enterprises and the public sector also recorded encouraging results.

On property development, design work for the Hokkaido resort project of Pacific Century Premium Developments proceeded according to schedule. The show house in Niseko is nearing completion. As Japan is gradually recovering from the earthquake in March last year, the company will continue to monitor the situation and make appropriate adjustments to our strategy for this project where necessary. Meanwhile, the master plan for the project in Phang-nga, Thailand, has also reached an advanced stage.

In view of the uncertain economic outlook in 2012, PCCW will cautiously evaluate any business or investment opportunity and make decisions that are in the overall interest of all our shareholders. With a stable distribution from the listed telecommunications business, in which the Group maintains a majority interest, and positive prospects for NOW Media and PCCW Solutions, we are confident of the further development of the Group in the coming year and going forward.



Richard Li
Chairman
February 28, 2012

STATEMENT FROM THE GROUP MANAGING DIRECTOR

PCCW last year completed the separate listing of its telecommunications assets, unlocking value for our shareholders. It is my pleasure to present my first statement in the PCCW annual report.

On November 29, 2011 HKT was spun off for a listing on the Hong Kong stock exchange. Following the global offering of the share stapled units of HKT Limited and the HKT Trust, PCCW still holds a majority interest in HKT.

The other main assets of the PCCW Group include the media business and the IT solutions business, respectively operated by Media and PCCW Solutions, both a leader in their own industries. In addition, the Group continues to hold a majority interest in Pacific Century Premium Developments, which is engaged in the investment and development of premium properties in Hong Kong and elsewhere.

We explained in detail the benefits of the HKT spin-off to PCCW shareholders last year as we sought shareholders' approval. In addition to releasing the value of the telecom assets, the exercise would increase the visibility of the Group's media and IT solutions businesses and further crystallize the value of these higher growth businesses.

I am pleased to report that both the media and IT solutions businesses recorded a strong performance for 2011, and we envision a promising future for them in the coming year.

MEDIA BUSINESS POISED FOR FURTHER GROWTH

NOW TV offers more than 180 television channels, video-on-demand and new media content services. It has built a reputation for its appealing content, innovation and excellent customer service. Its premium content and new services, such as the movie pay-per-view service Video Express, and its multi-screen strategy are key drivers of subscriptions and ARPU (average revenue per user). The media business delivered a set of solid results based on higher ARPU across a growing customer base and effective cost management. At the end of 2011, the subscription base reached more than 1.1 million.

Amongst its popular content offerings, NOW TV continued to enrich its coverage of premium sports from around the world, including the most comprehensive and exclusive broadcast of NBA basketball since the 2011–12 season kickoff, Rugby World Cup 2011 as well as the upcoming UEFA EURO 2012, via television and multi-screen delivery on Internet, tablets, smartphones, and other devices.

NOW TV is currently producing more than 20 Chinese-language channels of general news, financial news, sports, entertainment, and music. In early 2011, we launched Channel 101 featuring travel and lifestyle programs and an unprecedented interactive program, ATM, where viewers at home can participate in a live quiz show using their NOW TV remote control. In September, we introduced NOW Entertainment Channel featuring entertainment news, reality TV shows, and exclusive celebrity interviews. Our unique self-productions not only differentiate our service in the market, but also pave way for growth.

Moreover, we struck strategic partnerships in the areas of high quality drama and variety content with HaiRun Media & Entertainment Group Limited and Hunan Broadcasting System respectively in launching NOW HaiRun Channel and NOW Mango Channel. Based on the nationally top-rated and high quality programming from the mainland partners, NOW TV selects, edits and repackages the content to enhance their appeal to Hong Kong viewers and audiences around the region.

And more recently, we have joined hands with three top media companies across Hong Kong and mainland, namely Huayi Brothers, acclaimed director Peter Chan's WE PICTURES, and Edko Films, to launch NOW Popcorn movie channel in March 2012. This channel will showcase exclusive first-run films from our partners, as well as other top Hong Kong and Asian films, with rights covering Hong Kong and other markets in the region.

We are sowing seeds for future growth with the creation of content assets and a bouquet of channels covering the key genres of Chinese movies, drama, variety shows, entertainment news, lifestyle and travel. Our strategic partnerships will also enable us to capture speed to market as well as managing our risk and investments in new growth opportunities.

Our strategy to offer customers multi-screen and on-demand access to content has further reinforced our brand as an innovative service provider. A range of apps are available delivering enhanced features and content of NOW TV to users across multiple devices, such as an app player that offers live broadcast of our news programs and other content.

In staying ahead of the competition and to continually deliver the best media experience that evolves with consumer needs, NOW TV is uniquely positioned given the advantage of the superior technical support from both PCCW Solutions, the Group's IT services flagship, and HKT.

END-TO-END INFORMATION TECHNOLOGY SERVICES

PCCW Solutions recorded a strong financial performance in 2011. PCCW Solutions has successfully built impressive project credentials and a trustworthy reputation in the industry. Its competitive strength lies in its well-recognized ability to deliver end-to-end solutions and its long-term relationship with customers. It was ranked as No.17 in the Leader category of 2011 IAOP Global Outsourcing 100 by International Association of Outsourcing Providers, the highest ranking among outsourcing companies in all of China.

As a forerunner in the provision of services spanning across all five layers of the cloud stack (namely infrastructure, platform, software, content, and process), PCCW Solutions managed to capitalize on the rapidly expanding cloud computing needs. Among the clients to whom it is providing data center services are some of the major names in the banking and financial, and retail sectors.

In 2011, it continued its excellent record of gaining new sizeable contracts from both the public and private sectors for application outsourcing, business process outsourcing, and other services. Some examples are: implementation and maintenance of a new generation computerized social security system for the Social Welfare Department; implementation of a new engineering work and traffic information management system for the MTR Corporation; provision of a document management service for the Rating and Valuation Department; and data capturing services for the Department of Health.

PCCW Solutions last year celebrated its 10th anniversary of establishment in mainland China, where it also commands a leading place in the IT service industry. It was ranked as No.1 in "2010 China Top 20 IT Outsourcing Service Enterprises" by China Software and Services Outsourcing Network, and won a cloud innovation award.

In addition to its long-standing business relationships with major telecom operators in the mainland, PCCW Solutions' clientele has already extended to many other industries, such as aviation, banking, securities, etc. For instance, last year it gained a contract from the Middle South Regional Air Traffic Management Bureau to implement a control tower simulator solution to assist the client to train air traffic controllers.

ROBUST TELECOM BUSINESS

The telecom business of the Group, now as the separately listed HKT, reported a solid performance in 2011. The key drivers included the broadband and mobile services, as well as the growth in its global connectivity business.

Last year, HKT rolled out its fiber broadband service to the mass market, attracting a large number of new customers and also upgrades by existing ones. In addition, more customers signed up for our other high-speed services that have been made possible by our multiple broadband technologies.

Due to the increasing popularity of smartphones and tablets, mobile data revenue jumped significantly. Following a good start, the mobile business continued to exhibit a remarkable forward momentum throughout the year. The proportion of our customers who are smartphone users has increased, in line with our strategy to attract more customers with higher spending.

The fixed-line business showed improvement in the second half over the first six months, as more households upgraded to the **eye** home smart device.

In the commercial sector, customer premises equipment sale performed well in the generally favorable local economic environment. Meanwhile, despite the uncertain world economic outlook, PCCW Global continued its growth due to the growing demand from wholesale and retail customers.

More information can be found in HKT's 2011 Annual Report.

PROPERTY DEVELOPMENT

Pacific Century Premium Developments (PCPD) sold eight houses at Villa Bel-Air in 2011. It will sell the remaining three houses at appropriate prices at suitable times. In view of the limited supply of high-end properties in Hong Kong, we believe that these three houses would still be highly sought after once they are put on the market, and fetch good prices, especially when the market environment becomes more favorable.

The company has been working on the design for the Hanazono all-season resort project in Hokkaido, Japan, following the relevant approval of its master layout plan by the Japanese authorities. The master plan for its project in Phang-nga, Thailand, has also reached an advanced stage.

More information can be found in PCPD's 2011 Annual Report.

GOING FROM STRENGTH TO STRENGTH

In the coming year, HKT will build on its established strengths to gain a more prominent leadership position in the markets that it operates. PCCW will continue to consolidate the financial results of HKT, and the latter is expected to provide the Group with a stable cash distribution.

The media business continues to show significant growth momentum riding on its strong brand and premium content, its multi-screen strategy, as well as the Group's technology capability which enables us to constantly innovate. The media business' strategic investment in local production and co-production has paved the way for growth that extends our reach from beyond the television to new media devices, and from Hong Kong to other overseas Chinese communities, taking advantage of our expertise as a leading pay-TV operator and as a significant producer of high quality Chinese-language content.

PCCW Solutions is well-positioned to capture the increasing demand for data center services and end-to-end integrated IT services from international enterprises moving into Hong Kong and the growth in mainland China. With a long list of satisfied customers, PCCW Solutions' capability to offer the full spectrum of cloud computing services represents another key building block for further business development.

None of PCCW's 2011 achievements would have been possible without the leadership of my predecessor, Mr. Alex Arena. We are also especially indebted to our shareholders for their continued support. I look forward to the guidance of the Board and the dedication of all PCCW colleagues in ensuring that our business objectives are accomplished.



George Chan

Group Managing Director
February 28, 2012

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

LI Tzar Kai, Richard

Chairman

Mr Li, aged 45, was appointed an Executive Director and Chairman of PCCW in August 1999. He is the Chairman of PCCW's Executive Committee and a member of Nomination Committee of the Board. He is also the Chairman and Chief Executive of the Pacific Century Group, the Executive Chairman and an Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, the Chairman of HKT's Executive Committee and a member of HKT's Nomination Committee, an Executive Director and the Chairman of Pacific Century Premium Developments Limited (PCPD), the Chairman of PCPD's Executive Committee, a member of PCPD's Remuneration Committee and Nomination Committee, and the 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 member of the Global Information Infrastructure Commission. Mr Li was awarded the Lifetime Achievement Award by the Cable & Satellite Broadcasting Association of Asia in November 2011.

CHAN Ching Cheong, George

Group Managing Director

Mr Chan, aged 59, was appointed an Executive Director and Group Managing Director of PCCW in November 2011. He is a member of PCCW's Executive Committee. He joined the Group as Chairman – PCCW Media Group in 2010 and currently holds directorships in various companies of the Group.

He has over 18 years of experience with Television Broadcasts Limited between the periods from 1975 to 1989 (as Controller (Marketing and Sales) from 1982 to 1989) and 2004 to 2009 (as Assistant Managing Director). He has also had a successful career as an entrepreneur and as a director of several prominent companies engaged in media, telecommunications and technology in Hong Kong and overseas. Amongst other successful start-ups, Mr Chan co-founded TVB (USA) Inc., STAR-TV, Pacific Century Group and the Company in 1984, 1990, 1994 and 1999 respectively.

Mr Chan graduated with a Bachelor of Science degree from the University of Hong Kong and also has an MBA degree from the University of San Francisco.

HUI Hon Hing, Susanna

Group Chief Financial Officer

Ms Hui, aged 47, was appointed an Executive Director of PCCW in May 2010. She is a member of PCCW's Executive Committee. She has been the Group Chief Financial Officer of PCCW since April 2007 and holds directorships in various PCCW group companies. She is also an Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust. Ms Hui is a member of HKT's Executive Committee and the Group Chief Financial Officer of HKT. Prior to her appointment as the Group Chief Financial Officer of PCCW, Ms Hui was Director of Group Finance of PCCW from September 2006 to April 2007. Before that, Ms Hui was Director of Finance of PCCW, with responsibility for the telecommunications services sector and regulatory accounting. Ms Hui was the Chief Financial Officer of Pacific Century Premium Developments Limited from July 2009 to November 2011.

Prior to joining Cable & Wireless HKT Limited (which was subsequently acquired by PCCW) in September 1999, Ms Hui was the chief financial officer of a listed company engaged in hotel and property investment and management.

Ms Hui graduated with a bachelor's degree in social sciences from the University of Hong Kong with first class honours. She is a qualified accountant and a member of both the Hong Kong Institute of Certified Public Accountants and the American Institute of Certified Public Accountants.

LEE Chi Hong, Robert

Executive Director

Mr Lee, aged 60, 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, Chief Executive Officer and Deputy Chairman 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 had 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 77, 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.

TSE Sze Wing, Edmund, GBS

Non-Executive Director

Mr Tse, aged 74, is a Non-Executive Director of PCCW. He was an Independent Non-Executive Director of PCCW from September 2009 and was re-designated to a Non-Executive Director of PCCW in March 2011.

Mr Tse is the Non-Executive Chairman and a Non-Executive Director of AIA Group Limited. He is also the Chairman of The Philippine American Life and General Insurance Company. From 1996 until June 2009, Mr Tse was Director of

American International Group, Inc. (AIG) and from 2001 until June 2009, he was Senior Vice Chairman – Life Insurance of AIG. From 2000 until June 2009, he was also Chairman and Chief Executive Officer of American International Assurance Company, Limited. Mr Tse has held various senior positions and directorships in other AIG companies. Mr Tse is a Non-Executive Director of PICC Property and Casualty Company Limited. Mr Tse is also the Non-Executive Chairman for Asia ex-Japan of PineBridge Investments Asia Limited which is an asset management company owned indirectly by Mr Li Tzar Kai, Richard, the Chairman of PCCW.

Mr Tse was awarded the Gold Bauhinia Star (GBS) by the Government of the Hong Kong Special Administrative Region (HKSAR) in 2001 in recognition of his outstanding efforts in respect of the development of Hong Kong's insurance industry. Mr Tse graduated with a Bachelor of Arts degree in Mathematics from the University of Hong Kong (HKU) in 1960. HKU conferred an Honorary Fellowship and an Honorary Doctorate Degree in Social Sciences on Mr Tse in 1998 and 2002 respectively. He also obtained diplomas from the College of Insurance and the Graduate School of Business of Stanford University. He has extensive management experience in the insurance market, both in Asia and globally. In 2003, Mr Tse was elected to the Insurance Hall of Fame, and is so far the only Chinese to receive this most prestigious award in the global insurance industry. Mr Tse serves many community and professional organizations as well as educational institutions. He is also a director of AIA Foundation, which supports charitable causes in Hong Kong.

LU Yimin

Deputy Chairman

Mr Lu, aged 48, became a Non-Executive Director of PCCW in May 2008. He was appointed Deputy Chairman in November 2011 and is a member of PCCW's Executive Committee. He is also a Non-Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, and a member of HKT's Remuneration Committee, Nomination Committee, Regulatory Compliance Committee and Executive Committee.

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 Limited and 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 researcher 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.

LI Fushen

Non-Executive Director

Mr Li, aged 49, became a Non-Executive Director of PCCW in July 2007 and is a member of the Nomination Committee of the Board. He is also a Non-Executive Director of HKT Limited and HKT Management Limited, the trustee-manager of the HKT Trust.

Mr Li is an Executive Director and Chief Financial Officer of China Unicom (Hong Kong) Limited (Unicom HK). He is Vice President and Chief Accountant of China United Network Communications Group Company Limited. He is also a Director of China United Network Communications Limited and a Director and Senior Vice President of China United Network Communications Corporation Limited.

He served as Senior Vice President of Unicom HK from February 2009 to March 2011. 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 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 the former Jilin Provincial Telecommunications Company and Jilin Communications Company.

Mr Li graduated from the Australian National University with a master's degree in management in 2004, and from the Jilin Engineering Institute with a degree in engineering management in 1988. Mr Li has worked in the telecommunications industry for a long period of time and has extensive management experience.

LI Gang

Non-Executive Director

Mr Li, aged 54, was appointed a Non-Executive Director of PCCW in November 2011 and is a member of the Remuneration Committee of the Board.

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

Mr Li served as an Executive Director and Vice President of Unicom HK from April 2006 to February 2009 and has been a Senior Vice President of Unicom HK since February 2009. From August 1999 to December 2005, he served as the Deputy Chairman, General Manager and Chairman of Guangdong Mobile Communication Co., Limited and as the Chairman and General Manager of Beijing Mobile Communication Co., Limited. From May 2000 to December 2005, he also served as an Executive Director of China Mobile (Hong Kong) Limited. Mr Li joined China United Network Communications Group Company Limited in December 2005 and served as Vice President.

Mr Li graduated from Beijing University of Posts and Telecommunications and was awarded a master's degree in business administration by Jinan University. Mr Li has worked in the telecommunications industry for a long period of time and has rich management experience.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr The Hon Sir David LI Kwok Po, GBM, GBS, OBE, JP

Independent Non-Executive Director

Sir David, aged 73, 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 and Nomination 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, CaixaBank, S.A. (formerly 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 and AFFIN Holdings Berhad.

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 a member of the Council of the Treasury Markets Association.

Aman MEHTA

Independent Non-Executive Director

Mr Mehta, aged 65, became an Independent Non-Executive Director of PCCW in February 2004 and is Chairman of the Audit Committee, the Nomination Committee and the Remuneration 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 Limited, Jet Airways (India) Ltd. and Wockhardt Limited in Mumbai, India; Max India Limited and Cairn India Limited in New Delhi, India. He is also an Independent Director on the Supervisory Board of ING Groep N.V., a Netherlands company. He was an Independent Non-Executive Director of Emaar MGF Land Limited.

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.

WEI Zhe, David

Independent Non-Executive Director

Mr Wei, aged 41, was appointed an Independent Non-Executive Director of PCCW in November 2011 and is a member of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Board.

Mr Wei has over 15 years of experience in both investment and operational management in the People's Republic of China. Prior to launching Vision Knight Capital Partners LLP, a private equity investment fund in 2011, Mr Wei was an executive director and chief executive officer of Alibaba.com Limited, a leading worldwide B2B e-commerce company, for about five years, where he successfully led the company through its initial public offering and listing on The Stock Exchange of Hong Kong Limited in 2007. Prior to Alibaba.com Limited, Mr Wei was the president, from 2002 to 2006, and chief financial officer, from 2000 to 2002, of B&Q China, a subsidiary of Kingfisher plc, a leading home improvement retailer

in Europe and Asia. Under Mr Wei's leadership, B&Q China grew to become China's largest home improvement retailer. From 2003 to 2006, Mr Wei was also the chief representative for Kingfisher's China sourcing office, Kingfisher Asia Ltd. Prior to that, Mr Wei served as managing director and head of investment banking at Orient Securities Company Limited from 1998 to 2000, and as corporate finance manager at Coopers & Lybrand (now part of PricewaterhouseCoopers) from 1995 to 1998. Mr Wei was a non-executive director of HSBC Bank (China) Company Limited and The Hongkong and Shanghai Banking Corporation Limited in the past three years. He was voted as one of "China's Best CEOs" by FinanceAsia magazine in 2010. Mr Wei was also the vice chairman of China Chain Store & Franchise Association.

He holds a bachelor's degree in international business management from Shanghai International Studies University and has completed a corporate finance program at London Business School.

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 enhance its positive contribution to 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, 2011.

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 executives’ interests and short positions in shares, share stapled units, underlying shares, underlying share stapled units and debentures of the Company and its associated corporations are disclosed in the Report of the Directors on pages 29 to 48 of this annual report.

BOARD OF DIRECTORS

The board of directors (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) for which Board approval must be sought from time to time;
- those functions and matters for 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, and announcements of interim and annual results;
- consideration of dividend policy and dividend amounts; and
- monitoring of the corporate governance of the Group in order to comply with applicable rules and regulations.

The Chairman of PCCW is Li Tzar Kai, Richard and the Group Managing Director is Chan Ching Cheong, George. 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, 2011, 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 external 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 49 of this annual report.

As at the date of this report, the Board is comprised of 12 directors including four executive directors, five non-executive directors and three independent non-executive directors. Biographies of all the directors are set out on pages 9 to 13 of this annual report. The relationships (including financial, business, family or other material or relevant relationships), if any, among members of the Board have also been disclosed in the Report of the Directors of this annual report.

Biographies of senior corporate executives and heads of business units within the Group as at the date of this report are available on PCCW's website (www.pccw.com).

The Board held seven meetings in 2011. The Chairman of the Board, the Chairman of the Audit Committee and the Nomination Committee and a member of the Remuneration Committee attended the annual general meeting of the Company held on June 17, 2011.

The attendance of individual directors at the Board and Board committee meetings held in 2011 is set out in the following table:

Directors	Meetings attended/eligible to attend in 2011 ⁷			
	Board	Audit Committee	Nomination Committee	Remuneration Committee
Executive Directors				
Li Tzar Kai, Richard (<i>Chairman of the Board</i>)	6/7	–	2/2	–
Chan Ching Cheong, George (<i>Group Managing Director</i>) ¹	1/1	–	–	–
Hui Hon Hing, Susanna (<i>Group Chief Financial Officer</i>)	7/7	–	–	–
Lee Chi Hong, Robert	6/7	–	–	–
Non-Executive Directors				
Sir David Ford	7/7	–	–	–
Tse Sze Wing, Edmund	6/7	–	–	–
Lu Yimin (<i>Deputy Chairman of the Board</i>) ²	6/7	–	2/2	–
Li Fushen ³	6/7	–	–	–
Li Gang ⁴	1/1	–	–	–
Independent Non-Executive Directors				
Dr The Hon Sir David Li Kwok Po	5/7	3/3	2/2	2/2
Aman Mehta (<i>Chairman of Audit Committee, Nomination Committee & Remuneration Committee</i>) ⁵	7/7	3/3	2/2	–
Wei Zhe, David ⁶	1/1	1/1	–	–

Remarks:

1. Appointed as an executive director and the Group Managing Director on November 29, 2011.
2. Resigned as a member of the Nomination Committee and appointed as the Deputy Chairman of the Board with effect from November 29, 2011.
3. Appointed as a member of the Nomination Committee with effect from November 29, 2011.
4. Appointed as a non-executive director and a member of the Remuneration Committee on November 29, 2011.
5. Appointed as the Chairman of the Remuneration Committee with effect from November 29, 2011.
6. Appointed as an independent non-executive director and a member of the Audit Committee, Nomination Committee and Remuneration Committee respectively on November 29, 2011.
7. Directors may attend meetings in person, by phone or through other means of video conference or by their alternate directors in accordance with the Company's articles of association (the "Articles of Association").

BOARD OF DIRECTORS (CONTINUED)

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 Listing Rules 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 throughout 2011. Please also refer to the details disclosed in the section headed “**Independent Non-Executive Directors**” in the Report of the Directors of this annual report.

According to the 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 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

Upon completion of the spin off and separate listing of the share stapled units of the HKT Trust and HKT Limited on the Main Board of The Stock Exchange of Hong Kong Limited on November 29, 2011, the following committees of the Company were disbanded and reconstituted at the HKT Limited (“HKT”) level:

1. Regulatory Compliance Committee
2. PRC Business Development Committee
3. Finance and Management Committee
4. Operational Committee
5. Controls and Compliance Committee
6. Social Responsibility Committee

Details of the other PCCW Board committees are disclosed herein below.

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. 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

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*)
Chan Ching Cheong, George
Hui Hon Hing, Susanna
Lee Chi Hong, Robert
Lu Yimin

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 and senior management. In addition, the committee provides effective oversight 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:

Aman Mehta (*Chairman*)
Dr The Hon Sir David Li Kwok Po
Wei Zhe, David
Li Gang

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 and senior management:

- business requirements;
- individual performance and contribution to results;

BOARD COMMITTEES (CONTINUED)

Remuneration Committee (continued)

- company performance and profitability;
- retention considerations and the potential of individuals;
- corporate goals and objectives;
- 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 2011. The attendance of individual directors at the committee meetings is set out on page 15 of this annual report.

The following is a summary of work performed by the Remuneration Committee during 2011:

- review and recommendation of the non-executive directors' fees for 2011 to the Board for approval;
- review and approval of the 2010 incentive bonus payments to executive directors and key management personnel;
- review of the 2011 bonus scheme for executive directors and senior management;
- review and approval of the authorized signatories in relation to the operation of the share incentive award schemes and the share option schemes;
- review and recommendation of a proposal of grant of share options to directors, employees and other eligible persons to the Board for approval; and
- 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 83 to 85 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 five 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
Li Fushen
Wei Zhe, David

The Nomination Committee met two times in 2011. The attendance of individual directors at the committee meetings is set out on page 15 of this annual report.

The following is a summary of work performed by the Nomination Committee during 2011:

- recommendation to the Board for approval the list of retiring directors for re-election at the annual general meeting on June 17, 2011;
- review of the independence of all independent non-executive directors;
- consideration and recommendation to the Board for approval of the changes to the Board composition and the board composition of HKT upon the spin off and separate listing of the HKT Trust and HKT Limited; and
- review of the terms of reference of the Nomination Committee.

BOARD COMMITTEES (CONTINUED)**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. On February 28, 2012, the Board has resolved to expand the duties of the Audit Committee to cover corporate governance functions. 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 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 2012 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*)
Dr The Hon Sir David Li Kwok Po
Wei Zhe, David

The Audit Committee is provided with sufficient resources to discharge its duties and meets regularly with management, the internal auditor and external auditors and reviews their reports. During 2011, the committee met three times. The attendance of individual directors at the committee meetings is set out on page 15 of this annual report.

The following is a summary of work performed by the Audit Committee during 2011:

- (i) review of the annual report and the annual results announcement for the year ended December 31, 2010, with a recommendation to the Board for approval;
- (ii) review of PricewaterhouseCoopers' confirmation of independence and its report to the Audit Committee for the year ended December 31, 2010, with a recommendation to the Board for the re-appointment of PricewaterhouseCoopers at the 2011 annual general meeting;
- (iii) review of continuing connected transactions;
- (iv) review of the renewal of annual caps of continuing connected transactions with the China Unicom 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, 2011, with a recommendation to the Board for approval;
- (vii) review and approval of PricewaterhouseCoopers' report to the Audit Committee for the six months ended June 30, 2011, the management representation letter and the Audit Strategy Memorandum for the year ended December 31, 2011;
- (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, 2010 and the corporate governance disclosures for the six months ended June 30, 2011, with recommendations to the Board for approval;
- (xi) review of the annual report on effectiveness of internal controls under the Code, with a recommendation to the Board for approval;
- (xii) review of the scope of work of the Audit Committee after the spin off and separate listing of the HKT Trust and HKT Limited; and
- (xiii) review of the composition of the Audit Committee with a recommendation to the Board for ratification.

Subsequent to the year end, the Audit Committee reviewed the annual report and the annual results announcement for the year ended December 31, 2011, with a recommendation to the Board for approval.

For the year ended December 31, 2011, fees paid and payable to the auditors of the Group amounted to approximately HK\$23 million for audit services (2010: HK\$22 million) and HK\$36 million for non-audit services (2010: HK\$18 million). The non-audit services included the following:

Nature of services	HK\$ million
Tax services	7
Other services	29
	36

REGULATORY COMPLIANCE COMMITTEE OF PCCW MEDIA LIMITED

A Regulatory Compliance Committee of PCCW Media Limited, a wholly-owned subsidiary of the Company, comprising the members of senior management (but excluding Chairman Li Tzar Kai, Richard) and independent directors of PCCW, has been established to review and monitor dealings of the Group with the Hutchison Whampoa Group, the Cheung Kong Group and Hong Kong Economic Journal Company Limited. This is to ensure all dealings with these entities are conducted on an arm's-length basis.

Members of the Regulatory Compliance Committee of PCCW Media Limited are:

Tse Sze Wing, Edmund (*Chairman*)

(a non-executive director of PCCW)

Dr The Hon Sir David Li Kwok Po

(an independent non-executive director of PCCW)

Hui Hon Hing, Susanna

(an executive director and Group Chief Financial Officer of PCCW)

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 programs 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 have 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, are kept regularly appraised of significant risks that may have 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 members 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.

During 2011, 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 with particular emphasis on those controls that safeguard customer information. 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.

INTERNAL CONTROLS (CONTINUED)

After a review of the accounting period ended December 31, 2011, 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 programs and budget.

Further information on internal controls is provided under the "Corporate Governance" section on PCCW'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 and are also available on PCCW's website (www.pccw.com).

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 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

Chu Mee Lai, Helen

Company Secretary

Hong Kong, February 28, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Core revenue increased by 5% to HK\$22,512 million; consolidated revenue including PCPD increased by 7% to HK\$24,638 million
- Core EBITDA increased by 3% to HK\$7,252 million; consolidated EBITDA including PCPD increased by 3% to HK\$7,585 million
- Consolidated profit attributable to equity holders of the Company was HK\$1,607 million; basic earnings per share amounted to 22.10 HK cents
- Final dividend of 10.6 HK cents per share

MANAGEMENT REVIEW

In November 2011, the telecommunications business of PCCW was spun off and separately listed on The Stock Exchange of Hong Kong Limited (the "HKT Global Offering") and share stapled units were jointly issued by HKT Limited and the HKT Trust (collectively, "HKT"). Following the HKT Global Offering, PCCW continues to hold a majority interest in HKT. The latter's financial results therefore will continue to be consolidated into the Group's results.

With growth across the core business segments – namely HKT, the Media business and the Solutions business – PCCW reported core revenue increase of 5% to HK\$22,512 million for the year ended December 31, 2011. Core EBITDA was 3% higher year-on-year to HK\$7,252 million. The strong performance lifted core business earnings by 11% to HK\$1,588 million.

Revenue and EBITDA contributions from PCPD were higher at HK\$2,126 million and HK\$333 million respectively, compared with HK\$1,495 million and HK\$284 million a year earlier. Consolidated revenue for the year ended December 31, 2011, therefore, increased by 7% to HK\$24,638 million, while consolidated EBITDA increased by 3% to HK\$7,585 million. Consolidated profit attributable to equity holders of the Company was HK\$1,607 million. Basic earnings per share was 22.10 HK cents.

The board of Directors (the "Board") has recommended the payment of a final dividend of 10.6 HK cents per share for the year ended December 31, 2011.

OUTLOOK

In the coming year, HKT will build on its established strengths to gain a more prominent leadership position in the markets that it operates. PCCW will continue to consolidate the financial results of HKT, and the latter is expected to provide the Group with a stable cash distribution.

The Media Business continues to show significant growth momentum riding on its strong brand and premium content, its multi-screen strategy, as well as the Group's technology capability which enables us to constantly innovate. The Media Business' strategic investment in local production and co-production has paved the way for growth that extends our reach beyond the television to new media devices, and from Hong Kong to other overseas Chinese communities, taking advantage of our expertise as a leading pay-TV operator and as a significant producer of high quality Chinese-language content.

Solutions Business is well-positioned to capture the increasing demand for data center services from international enterprises moving into Hong Kong and the growth in mainland China. With a long list of satisfied customers of its IT services, Solutions Business' capability to offer the full spectrum of cloud computing services represents another key building block for further business development.

We are optimistic about the future of the Group given the solid HKT contributions and the growth potential of the Media and Solutions businesses. We will continue to exercise prudent financial management and remain committed to delivering on the dividend pledge that the Company made to shareholders upon the listing of HKT.

Note: Core revenue refers to consolidated revenue excluding Pacific Century Premium Developments Limited ("PCPD"), the Group's property development and investment business; core EBITDA refers to consolidated EBITDA excluding PCPD; earnings for the core business refers to consolidated profit attributable to equity holders of the Company excluding the Group's share of PCPD's profit after tax and effects of eliminations.

FINANCIAL REVIEW BY SEGMENTS

For the year ended December 31, HK\$ million	2010			2011			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
Revenue⁴							
HKT	9,206	9,321	18,527	9,537	10,288	19,825	7%
Media Business	1,179	1,204	2,383	1,189	1,518	2,707	14%
Solutions Business	1,058	981	2,039	1,090	1,119	2,209	8%
Other Businesses	13	27	40	35	39	74	85%
Eliminations	(724)	(798)	(1,522)	(915)	(1,388)	(2,303)	(51)%
Core revenue	10,732	10,735	21,467	10,936	11,576	22,512	5%
PCPD	1,070	425	1,495	1,250	876	2,126	42%
Consolidated revenue	11,802	11,160	22,962	12,186	12,452	24,638	7%
Cost of sales	(5,484)	(5,049)	(10,533)	(5,499)	(5,898)	(11,397)	(8)%
Operating costs before depreciation, amortization, and (loss)/gain on disposal of property, plant and equipment	(2,596)	(2,480)	(5,076)	(2,912)	(2,744)	(5,656)	(11)%
EBITDA^{1,4}							
HKT	3,523	3,726	7,249	3,623	3,788	7,411	2%
Media Business	43	189	232	231	400	631	172%
Solutions Business	139	145	284	157	226	383	35%
Other Businesses	(336)	(360)	(696)	(476)	(366)	(842)	(21)%
Eliminations	–	–	–	–	(331)	(331)	NA
Core EBITDA¹	3,369	3,700	7,069	3,535	3,717	7,252	3%
PCPD	353	(69)	284	240	93	333	17%
Consolidated EBITDA¹	3,722	3,631	7,353	3,775	3,810	7,585	3%
Core EBITDA Margin¹	31%	34%	33%	32%	32%	32%	
Consolidated EBITDA Margin¹	32%	33%	32%	31%	31%	31%	
Depreciation and amortization	(1,883)	(1,917)	(3,800)	(1,962)	(1,987)	(3,949)	(4)%
(Loss)/Gain on disposal of property, plant and equipment	(2)	(43)	(45)	1	–	1	NA
Net other gains	33	1,181	1,214	99	44	143	(88)%
Interest income	9	18	27	33	38	71	163%
Finance costs	(806)	(781)	(1,587)	(763)	(802)	(1,565)	1%
Share of results of associates and jointly controlled companies	(13)	(69)	(82)	(8)	40	32	NA
Profit before income tax	1,060	2,020	3,080	1,175	1,143	2,318	(25)%

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 goodwill, tangible and intangible assets and interests in associates and jointly controlled companies, and the Group's share of results of associates and jointly controlled companies. 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 Gross debt refers to the principal amount of short-term borrowings and long-term borrowings. Net debt refers to the principal amount of short-term borrowings and long-term borrowings minus cash and cash equivalents and certain restricted cash.

Note 3 Group capital expenditure includes additions to property, plant and equipment and interests in leasehold land.

Note 4 During the year ended December 31, 2011, the Group has completed an internal reorganization in connection with the HKT Global Offering. As a result, management has made changes to the Group's internal reporting that caused changes to reportable segments and segment presentation. The prior year's segment information has been restated to conform with the revised presentation.

HKT

For the year ended December 31, HK\$ million	2010			2011			Better/ (Worse) y-0-y
	H1	H2	Full Year	H1	H2	Full Year	
HKT Revenue	9,206	9,321	18,527	9,537	10,288	19,825	7%
HKT EBITDA¹	3,523	3,726	7,249	3,623	3,788	7,411	2%
HKT EBITDA margin¹	38%	40%	39%	38%	37%	37%	

HKT delivered a solid set of financial results in 2011, exceeding the key forecasts provided in the HKT Global Offering prospectus.

For the year ended December 31, 2011, HKT revenue displayed strong momentum, rising 7% to HK\$19,825 million. The increase in revenue was mainly attributable to significant growth in the local data business with the full rollout of fiber broadband, growing demand for international telecommunications services, and an impressive performance from the mobile business. Mobile data revenue in particular was boosted by the rapidly increasing popularity of smartphones and tablets, as HKT recorded an enlarged 3G subscriber base with a higher average revenue per user ("ARPU").

HKT EBITDA for the year was HK\$7,411 million, an increase of 2% over the previous year, which exceeded the forecast of HK\$7,385 million as disclosed in the prospectus. The growth in EBITDA was substantially contributed by the mobile segment, which benefited from the lower incremental operating costs due to efficiencies of its integrated network.

Annual adjusted funds flow for the year ended December 31, 2011 reached HK\$2,387 million, an increase of 18% over the previous year and again above the forecast of HK\$2,356 million. Annual adjusted funds flow per share stapled unit was 37.20 HK cents.

For more information about the performance of HKT, please refer to its 2011 annual results released on February 27, 2012.

Media Business

For the year ended December 31, HK\$ million	2010			2011			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
Media Business Revenue	1,179	1,204	2,383	1,189	1,518	2,707	14%
Media Business EBITDA¹	43	189	232	231	400	631	172%
Media Business EBITDA margin¹	4%	16%	10%	19%	26%	23%	

Media business had an encouraging financial performance in 2011, delivering a broader revenue base and higher ARPU on the back of NOW TV's strong brand, attractive premium content, innovative services and multi-screen strategy. Revenue grew 14% to HK\$2,707 million for the year ended December 31, 2011. With higher levels of operating efficiencies achieved, EBITDA surged by 172% to HK\$631 million. EBITDA margin was 23% in 2011, a substantial increase from 10% a year earlier.

As the leader in the Hong Kong pay-TV market, NOW TV offers more than 180 television channels, video-on-demand and new media content services. During the year, a greater variety of premium sports programming including exclusive content was launched, reinforcing the ARPU of the sports package.

NOW TV's installed subscriber base continued to expand by 10% to 1,140,000 at the end of December 2011. The installed base ARPU also improved further in the second half of 2011, rebounding to HK\$169 at the end of December 2011 (2010: HK\$165), as customers took up more premium content and new media services.

During the year, advertising revenue also grew strongly as more attractive local content was produced. Currently, NOW TV produces more than 20 Chinese-language channels of general news, financial news, sports, entertainment and music.

Solutions Business

For the year ended December 31, HK\$ million	2010			2011			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
Solutions Business Revenue	1,058	981	2,039	1,090	1,119	2,209	8%
Solutions Business EBITDA¹	139	145	284	157	226	383	35%
Solutions Business EBITDA margin¹	13%	15%	14%	14%	20%	17%	

PCCW Solutions, as a leading IT service provider in Hong Kong and mainland China, continued to demonstrate excellent growth momentum, with notable increases in both revenue and EBITDA in 2011.

Revenue for the year ended December 31, 2011 increased by 8% to HK\$2,209 million, as the business benefited from the increase in demand for cloud computing-related and data center services. Revenue growth was also driven by the fact that PCCW Solutions continued to secure more IT service contracts from both the public and private sectors in Hong Kong and mainland China, some of which providing long-term, recurring revenues.

As a forerunner in the provision of a full spectrum of cloud computing services, PCCW Solutions managed to capitalize on the fast expanding cloud computing needs. Having built an eminent reputation in mainland China over the past decade, PCCW Solutions is also well positioned to capture significant growth opportunities in the vast mainland market. It has gained customers in various industries including telecommunications, aviation, banking, and finance.

Because of enhanced utilization of its data center facilities and greater operating efficiencies during the year, EBITDA increased by 35% to HK\$383 million and EBITDA margin further improved to 17% in 2011.

PCPD

PCPD recorded total revenue of HK\$2,126 million and EBITDA of HK\$333 million for the year ended December 31, 2011, compared with HK\$1,495 million and HK\$284 million, respectively, a year earlier.

In Hong Kong, eight houses at Villa Bel-Air were sold during the year. Pacific Century Place, PCPD's investment property in Beijing, enjoyed an average occupancy rate of approximately 88% for the year ended December 31, 2011.

As for overseas projects, PCPD has been working on the design for the Hanazono all-season resort project in Hokkaido, Japan, following the approval of the residential portion by the Japanese authorities. The master plan for the project in Phang-nga, Thailand, has also reached an advanced stage.

For more information about the performance of PCPD, please refer to its 2011 annual results released on February 28, 2012.

COSTS

Cost of Sales

For the year ended December 31, HK\$ million	2010			2011			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
The Group (excluding PCPD)	4,932	4,837	9,769	4,743	5,369	10,112	(4)%
PCPD	552	212	764	756	529	1,285	(68)%
Group Total	5,484	5,049	10,533	5,499	5,898	11,397	(8)%

The Group's consolidated total cost of sales for the year ended December 31, 2011 increased by 8% to HK\$11,397 million mainly due to the higher cost of sales on the property side. Gross margin remained stable at 54% in 2011.

As core revenue increased, the Group's cost of sales excluding PCPD also increased to HK\$10,112 million.

General and Administrative Expenses

The Group continued to implement cost management measures appropriate for the challenging operating environment, while at the same time investing for business growth in 2011. Operating expenses before depreciation and amortization, and gain/loss on disposal of property, plant and equipment increased by 11% to HK\$5,656 million for the year ended December 31, 2011. The increase in expenses was primarily due to considerable non-recurring costs incidental to the spin-off of HKT, higher marketing expenses in association with the corporate branding of HKT and

Other Businesses

Other Businesses primarily comprised the wireless broadband business in the United Kingdom and all corporate support functions. Revenue from Other Businesses was HK\$74 million for the year ended December 31, 2011. The cost to the Group's Other Businesses amounted to HK\$842 million in 2011, which included considerable non-recurring costs incidental to the spin-off of HKT and higher marketing expenses in association with the corporate branding of HKT and PCCW during the year.

Eliminations

Eliminations was HK\$2,303 million for the year ended December 31, 2011, as compared to HK\$1,522 million a year ago. Eliminations mainly represented eliminations of intra-group sale and transfer of rights to use certain equipment and assets in the ordinary course of business on an arm's length basis.

PCCW, and increased rental expenses for retail shops during the year. Taking into account the depreciation and amortization expenses of HK\$3,949 million, general and administrative expenses increased by 8% to HK\$9,604 million in 2011.

EBITDA¹

Solid performance in all core segments led to an overall core EBITDA improvement in 2011. Core EBITDA increased by 3% to HK\$7,252 million for the year ended December 31, 2011. Together with PCPD's EBITDA of HK\$333 million for the year, consolidated EBITDA including PCPD also increased by 3% to HK\$7,585 million.

Interest Income and Finance Costs

Interest income increased by 163% to HK\$71 million for the year ended December 31, 2011 due to a higher average cash balance and a higher average deposit income rate in 2011. Coupled with the interest savings after the repayment in November 2011 of the US\$1 billion notes due 2011, net finance costs dropped by 4% to HK\$1,494 million for the year ended December 31, 2011.

Income Tax

Income tax expenses for the year ended December 31, 2011 decreased to HK\$542 million, as compared to HK\$756 million a year ago. The effective tax rate was 23% (2010: 25%). The decrease in tax expenses was primarily due to the utilization of previously unrecognized tax losses as certain loss-making companies had turned profitable, and the decrease in certain deferred income tax expenses during the year. The rate is higher than the statutory tax rate of 16.5%, mainly due to the higher tax rates for overseas entities.

Non-controlling Interests

Non-controlling interests of HK\$169 million primarily represented the net profit attributable to the non-controlling shareholders of HKT and PCPD.

Consolidated Profit Attributable to Equity Holders of the Company

Consolidated profit attributable to equity holders of the Company for the year ended December 31, 2011 was HK\$1,607 million (2010: HK\$1,926 million). The reduction of consolidated profit attributable to equity holders of the Company during the year was primarily due to the decrease of non-operating gain on valuation of investment properties, which were primarily held by PCPD, by HK\$1,130 million as compared with 2010.

LIQUIDITY AND CAPITAL RESOURCES

The Group actively and regularly reviews and manages its capital structure to maintain a balance between shareholders' return and a sound capital position. The Group also makes adjustments to maintain an optimal capital structure in light of changes in economic conditions and to reduce the cost of capital.

The HKT Global Offering completed in November 2011 generated net proceeds of HK\$8,684 million, HK\$7,800 million of which was used towards repayment of the Group's debt.

In November 2011, the Group redeemed US\$1,000 million in bonds which came due on maturity. During the year, the Group also reduced its outstanding bank loans by another HK\$3,923 million. As a result, the Group's gross debt² was reduced to HK\$23,592 million as at December 31, 2011 (December 31, 2010: HK\$35,315 million). Cash and cash equivalents totaled HK\$5,365 million as at December 31, 2011 (December 31, 2010: HK\$8,101 million). The Group's net debt² was HK\$18,195 million as at December 31, 2011 (December 31, 2010: HK\$27,182 million).

As at December 31, 2011, the Group had a total of HK\$23,851 million in committed bank loan facilities available for liquidity management, of which HK\$11,955 million remained undrawn.

The Group's gross debt² to total assets was 51% as at December 31, 2011 (2010: 73%).

CREDIT RATINGS OF HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

As at December 31, 2011, Hong Kong Telecommunications (HKT) Limited, an indirect non-wholly-owned subsidiary of the Company, had investment grade ratings with Moody's Investors Service (Baa2) and Standard & Poor's Ratings Services (BBB).

CAPITAL EXPENDITURE³

Group capital expenditure for the year ended December 31, 2011 was HK\$1,991 million (2010: HK\$1,847 million), of which HKT accounted for about 80% in 2011 (2010: 87%). In addition, the Group received fixed assets of HK\$629 million from the integration of Reach. Major outlays for the year were mainly expanded investments and network enhancement in meeting demand for high-speed broadband services, quadruple-play and international networks.

Going forward, the Group will continue to invest in its delivery platform and networks taking into account the prevailing market conditions, and using assessment criteria including internal rate of return, net present value and payback period.

HEDGING

Market risk arises from foreign currency and interest rate exposures 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 Group 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 Group's policies and guidelines, 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, 2011, all cross currency swap contracts were designated as cash flow hedges and fair value hedges for the Group's foreign currency denominated long-term borrowings.

CHARGE ON ASSETS

As at December 31, 2011, certain assets of the Group with an aggregate carrying value of HK\$5,476 million (2010: HK\$5,193 million) were pledged to secure loans and bank loan facilities of the Group.

CONTINGENT LIABILITIES

As at December 31, HK\$ million	2010	2011
Performance guarantees	377	444
Others	44	31
	421	475

The Group is subject to certain corporate guarantee obligations to guarantee the performance of its 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, 2011, the Group had approximately 20,100 employees (2010: 19,300). About 60% of these employees work in Hong Kong and the others are based mainly in the PRC, the United States and the Philippines. The Company has established incentive bonus schemes designed to motivate and reward employees at all levels to achieve the Company's business performance targets. Payment of bonuses is generally based on achievement of EBITDA¹ and free cash flow targets for the Group as a whole and for each of the individual business units.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of 10.6 HK cents (2010: 10.2 HK cents) per ordinary share for the year ended December 31, 2011 subject to the approval of shareholders of the Company at the forthcoming annual general meeting. An interim dividend of 5.3 HK cents (2010: 5.1 HK cents) per ordinary share for the six months ended June 30, 2011 was paid by the Company on October 7, 2011.

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REPORT OF THE DIRECTORS

The board of directors (the “Board”) presents its annual report together with the audited consolidated financial statements of PCCW Limited (“PCCW” or the “Company”) and its subsidiaries (collectively the “Group”) for the year ended December 31, 2011.

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 region.

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

SPIN-OFF OF TELECOMMUNICATIONS BUSINESS

In November 2011, the telecommunications business of PCCW was spun off and separately listed on The Stock Exchange of Hong Kong Limited (the “HKT Trust Global Offering”) and share stapled units (“Share Stapled Units”) were jointly issued by the HKT Trust and HKT Limited. Following the HKT Trust Global Offering, PCCW continues to hold a majority interest in the HKT Trust, HKT Limited (“HKT”) and its subsidiaries (collectively, the “HKT Group”). The latter’s financial results therefore will continue to be consolidated into the Group’s results. The financial effects of the dilution of interest in the HKT Group to the Group are set out in note 33(b) to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2011 are set out in the accompanying consolidated financial statements on page 50.

An interim dividend of 5.3 HK cents per share (2010: 5.1 HK cents per share), totaling approximately HK\$385 million, was paid to shareholders of the Company in October 2011.

During the year ended December 31, 2011, PCCW declared a conditional special dividend to be satisfied by way of two distributions in specie of Share Stapled Units representing an aggregate of approximately 5% of the Share Stapled Units in issue immediately following the completion of the HKT Trust Global Offering (“Distributions in Specie”). The Distributions in Specie became unconditional upon the listing of Share Stapled Units on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on November 29, 2011. Accordingly, the estimated dividend payable of approximately HK\$1,443 million was recorded, which is measured at the fair value of approximately 5% of the Share Stapled Units to be distributed on the date when the Distributions in Specie became unconditional.

The first distribution in specie represents a distribution of 158,080,457 Share Stapled Units on the basis of 1 Share Stapled Unit for every integral multiple of 46 ordinary shares of the Company, and will be transferred to eligible shareholders on or around March 2, 2012.

The second distribution in specie represents a distribution of approximately 2.5% of the Share Stapled Units in issue immediately following the completion of the HKT Trust Global Offering, and will be transferred to eligible shareholders, in proportion to their shareholdings in the Company as at March 20, 2012, on or before May 22, 2012.

The Board has recommended the payment of a final dividend of 10.6 HK cents per share (2010: 10.2 HK cents per share) for the year ended December 31, 2011 subject to the approval of shareholders of the Company at the forthcoming annual general meeting.

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, 2011, 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*)

Chan Ching Cheong, George (*Group Managing Director*) (appointed on November 29, 2011)

Hui Hon Hing, Susanna (*Group Chief Financial Officer*)

Lee Chi Hong, Robert

Alexander Anthony Arena (*Group Managing Director*) (resigned on November 29, 2011)

Peter Anthony Allen (resigned on November 29, 2011)

Non-Executive Directors

Sir David Ford, KBE, LVO

Tse Sze Wing, Edmund, GBS (re-designated from an Independent Non-Executive Director on March 22, 2011)

Lu Yimin (*Deputy Chairman*) (appointed Deputy Chairman on November 29, 2011)

Li Fushen

Li Gang (appointed on November 29, 2011)

Zuo Xunsheng (*Deputy Chairman*) (resigned on November 29, 2011)

Chung Cho Yee, Mico (resigned on November 29, 2011)

Independent Non-Executive Directors

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

Aman Mehta

Wei Zhe, David (appointed on November 29, 2011)

Professor Chang Hsin Kang, FEng, GBS, JP (resigned on November 29, 2011)

Sir Rogerio (Roger) Hyndman Lobo, CBE, LLD, JP (resigned on November 29, 2011)

The Hon Raymond George Hardenbergh Seitz (resigned on November 29, 2011)

DIRECTORS (CONTINUED)

In accordance with article 92 of the Company's articles of association, Chan Ching Cheong, George, Li Gang and Wei Zhe, David will retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with article 101A of the Company's articles of association, Sir David Ford and Lu Yimin will retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive directors, namely, Dr The Hon Sir David Li Kwok Po, Aman Mehta and Wei Zhe, David, an annual confirmation of his respective independence pursuant to rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). It is considered that all of the three independent non-executive directors have been independent throughout 2011, and they remain so as of the date of this report.

On September 15, 2010, PCRD Services Pte Ltd ("PCRD Services"), a wholly-owned subsidiary of Pacific Century Regional Developments Limited ("PCRD") (a substantial shareholder of the Company), together with Aman Mehta (an independent non-executive director of the Company), Akash Mehta (the son of Aman Mehta) and Pasha Ventures Private Limited ("Pasha Ventures") entered into a share sale agreement with American International Group, Inc. ("AIG"), pursuant to which Pasha Ventures, PCRD Services, Aman Mehta and Akash Mehta have agreed that Pasha Ventures would acquire the entire issued equity capital of AIG Home Finance India Limited (now known as Indo Pacific Housing Finance Limited) ("AIGHFIL") and AIGHFIL's wholly-owned subsidiary, Consumer Financial Services Limited ("CFSL"), from AIG (the "Acquisition") for an aggregate consideration of Indian Rupees 20,000,006 (equivalent to approximately HK\$3.36 million). Pasha Ventures is an Indian private limited company incorporated solely for the purposes of acquiring AIGHFIL pursuant to the Acquisition. AIGHFIL is a public limited company incorporated in India and was an indirect wholly-owned subsidiary of AIG. AIGHFIL and its wholly-owned subsidiary, CFSL, originate secured housing loans and loans against properties (i.e. home equity loans). The Acquisition was completed on October 20, 2010. As of October 20, 2010 and up to the date of this report, PCRD Services held 74% of the issued equity capital of Pasha Ventures, and Aman Mehta and Akash Mehta held 21% and 5% of the paid up issued equity capital of Pasha Ventures respectively. PCRD Services has entered into a Shareholders' Agreement with Aman Mehta, Akash Mehta and Pasha Ventures under which there are provisions for a call option which gives PCRD Services the right to purchase up to 1% of the paid up issued equity capital of Pasha Ventures held by Aman Mehta at an exercise price of Indian Rupees 131 per share. In addition, Akash Mehta is one of the directors of Pasha Ventures, AIGHFIL and CFSL and he does not have control over the board of directors of these companies. Save as disclosed above, Akash Mehta is not in any way connected to PCRD, PCRD Services or PCCW.

Notwithstanding Aman Mehta's investment in Pasha Ventures as mentioned above, the Company is of the view that Aman Mehta's continued independence in accordance with the terms of the independence guidelines set out in rule 3.13 of the Listing Rules is not affected by his above investment for the following reasons: (i) Aman Mehta's investment in Pasha Ventures is a purely passive personal investment; he will not be a director of Pasha Ventures, AIGHFIL or CFSL nor will he be involved or participate in the daily operations and management of Pasha Ventures, AIGHFIL or CFSL; (ii) the businesses of Pasha Ventures, AIGHFIL or CFSL do not overlap or conflict with the businesses of the Company; and (iii) save as disclosed above, neither Aman Mehta nor Akash Mehta holds any interest, direct or indirect in PCRD and its subsidiaries.

DIRECTORS' SERVICE CONTRACTS

None of the directors being 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 EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, SHARE STAPLED UNITS, UNDERLYING SHARES, UNDERLYING SHARE STAPLED UNITS AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at December 31, 2011, the directors and chief executives of the Company and their associates had the following interests and short positions in the shares, share stapled units, underlying shares, underlying share stapled units and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to 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 executives of the Company:

Name of Director/ Chief Executive	Personal interests	Number of ordinary shares			Number of underlying shares held under equity derivatives	Total	Approximate percentage of issued share capital
		Family interests	Corporate interests	Other interests			
Li Tzar Kai, Richard	–	–	271,666,824 <i>(Note 1(a))</i>	1,740,004,335 <i>(Note 1(b))</i>	–	2,011,671,159	27.66%
Chan Ching Cheong, George	226,600	–	100,000 <i>(Note 2)</i>	–	–	326,600	0.004%
Lee Chi Hong, Robert	992,600 <i>(Note 3(a))</i>	511 <i>(Note 3(b))</i>	–	–	5,000,000 <i>(Note 4)</i>	5,993,111	0.08%
Sir David Ford	–	–	–	–	1,000,000 <i>(Note 4)</i>	1,000,000	0.01%
Tse Sze Wing, Edmund	–	340,000 <i>(Note 5)</i>	–	–	–	340,000	0.005%
Dr The Hon Sir David Li Kwok Po	1,000,000	–	–	–	–	1,000,000	0.01%

Notes:

1. (a) Of these shares, Pacific Century Diversified Limited ("PCD"), a wholly-owned subsidiary of Chiltonlink Limited ("Chiltonlink"), held 237,919,824 shares and Eisner Investments Limited ("Eisner") held 33,747,000 shares. Li Tzar Kai, Richard owned 100% of the issued share capital of Chiltonlink and Eisner.
- (b) These interests represented:
 - (i) a deemed interest in 36,726,857 shares of the Company held by Yue Shun Limited ("Yue Shun"), 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 36,726,857 shares of the Company held by Yue Shun;

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, SHARE STAPLED UNITS, UNDERLYING SHARES, UNDERLYING SHARE STAPLED UNITS AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (CONTINUED)

1. Interests in the Company (continued)

Notes: (continued)

1. (b) (continued)
 - (ii) a deemed interest in 154,785,177 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 154,785,177 shares of the Company held by PCGH;
 - (iii) a deemed interest in 1,548,211,301 shares of the Company held by 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 1,548,211,301 shares of the Company held by PCRD; and
 - (iv) a deemed interest in 281,000 shares of the Company held by PineBridge Investments LLC ("PBI LLC") in the capacity of investment manager. PBI LLC was an indirect subsidiary of Chiltonlink. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in 281,000 shares of the Company held by PBI LLC.
2. These shares were held by Butternut Pacific Resources Limited ("Butternut"), which was 100% owned by Chan Ching Cheong, George.
3. (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.
4. 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 and Share Award Schemes of the Company and its Subsidiaries" of this report.
5. These shares were held by the spouse of Tse Sze Wing, Edmund.
6. As at December 31, 2011, the Company had a total of 7,272,294,654 shares in issue.

2. Interests in associated corporations of the Company

A. PCCW-HKT Capital No.2 Limited

PineBridge Investments Asia Limited ("PBIA") in the capacity of investment manager held US\$10,000,000 of 6% guaranteed notes due 2013 (the "Notes") issued by PCCW-HKT Capital No.2 Limited, an associated corporation of the Company. PBIA was an indirect subsidiary of Chiltonlink. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the amount of US\$10,000,000 of the Notes held by PBIA.

B. HKT Trust and HKT Limited

The table below sets out the aggregate long positions in the Share Stapled Units and underlying Share Stapled Units held by the directors and chief executives of the Company:

Name of Director/ Chief Executive	Number of Share Stapled Units				Number of underlying Share Stapled Units held under equity derivatives	Total	Approximate percentage of issued Share Stapled Units
	Personal interests	Family interests	Corporate interests	Other interests			
Li Tzar Kai, Richard	–	–	213,667,707 (Note 1(a))	87,532,555 (Note 1(b))	–	301,200,262	4.69%
Chan Ching Cheong, George	11,400 (Note 2(a))	–	5,031 (Note 2(b))	–	–	16,431	0.0003%
Lee Chi Hong, Robert	21,578 (Note 3(a))	11 (Note 3(b))	–	–	–	21,589	0.0003%
Tse Sze Wing, Edmund	–	201,107 (Note 4)	–	–	–	201,107	0.003%
Dr The Hon Sir David Li Kwok Po	121,739 (Note 5)	–	–	–	–	121,739	0.002%

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, SHARE STAPLED UNITS, UNDERLYING SHARES, UNDERLYING SHARE STAPLED UNITS AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (CONTINUED)

2. Interests in associated corporations of the Company (continued)

B. HKT Trust and HKT Limited (continued)

Each Share Stapled Unit confers an interest in:

- (a) one voting ordinary share of HK\$0.0005 in HKT; and
- (b) one voting preference share of HK\$0.0005 in HKT,

for the purposes of Part XV of the SFO, in addition to an interest in one unit in the HKT Trust.

Under the trust deed dated November 7, 2011 constituting the HKT Trust, entered into between HKT Management Limited (in its capacity as the trustee-manager of the HKT Trust) and HKT and as supplemented, amended or substituted from time to time; and the amended and restated articles of association of HKT, the number of ordinary shares and preference shares of HKT in issue must be the same at all times and must also, in each case, be equal to the number of units of the HKT Trust in issue; and each of them is equal to the number of Share Stapled Units in issue.

Notes:

1. (a) Of these Share Stapled Units:
 - (i) PCD held 6,797,708 Share Stapled Units and was interested in 5,172,169 Share Stapled Units which will be received on or around March 2, 2012 under the First Distribution (as defined in the Company's circular to the shareholders dated September 26, 2011)(the "First Distribution"); and
 - (ii) Eisner held 200,964,200 Share Stapled Units and was interested in 733,630 Share Stapled Units which will be received on or around March 2, 2012 under the First Distribution.
- (b) These interests represented:
 - (i) the deemed interests in 1,049,338 Share Stapled Units held by Yue Shun and 798,409 Share Stapled Units which will be received by Yue Shun on or around March 2, 2012 under the First Distribution. Li Tzar Kai, Richard was deemed, under the SFO, to have interests in 1,049,338 Share Stapled Units and 798,409 Share Stapled Units held or to be held by Yue Shun;
 - (ii) the deemed interests in 4,422,432 Share Stapled Units held by PCGH and 3,364,894 Share Stapled Units which will be received by PCGH on or around March 2, 2012 under the First Distribution. Li Tzar Kai, Richard was deemed, under the SFO, to have interests in 4,422,432 Share Stapled Units and 3,364,894 Share Stapled Units held or to be held by PCGH;
 - (iii) the deemed interests in 44,234,608 Share Stapled Units held by PCRD and 33,656,766 Share Stapled Units which will be received by PCRD on or around March 2, 2012 under the First Distribution. Li Tzar Kai, Richard was deemed, under the SFO, to have interests in 44,234,608 Share Stapled Units and 33,656,766 Share Stapled Units held or to be held by PCRD; and
 - (iv) a deemed interest in 6,108 Share Stapled Units which will be received by PBI LLC on or around March 2, 2012 under the First Distribution. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in 6,108 Share Stapled Units to be held by PBI LLC.
2. (a) Chan Ching Cheong, George held 6,474 Share Stapled Units and was interested in 4,926 Share Stapled Units which will be received on or around March 2, 2012 under the First Distribution; and
- (b) Butternut held 2,857 Share Stapled Units and was interested in 2,174 Share Stapled Units which will be received on or around March 2, 2012 under the First Distribution.
3. (a) Lee Chi Hong, Robert jointly with his spouse were interested in 21,578 Share Stapled Units which will be received on or around March 2, 2012 under the First Distribution; and
- (b) The spouse of Lee Chi Hong, Robert was interested in 11 Share Stapled Units which will be received on or around March 2, 2012 under the First Distribution.
4. The spouse of Tse Sze Wing, Edmund held 193,715 Share Stapled Units and was interested in 7,392 Share Stapled Units which will be received on or around March 2, 2012 under the First Distribution.
5. Sir David Li Kwok Po held 100,000 Share Stapled Units and was interested in 21,739 Share Stapled Units which will be received on or around March 2, 2012 under the First Distribution.
6. As at December 31, 2011, there was a total of 6,416,730,792 Share Stapled Units in issue.

Save as disclosed above, as at December 31, 2011, none of the directors or chief executives of the Company or their associates had any interests or short positions in any shares, share stapled units, underlying shares, underlying share stapled units 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 by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEMES AND SHARE AWARD SCHEMES OF THE COMPANY AND ITS SUBSIDIARIES

1. The Company

A. Share Option Schemes

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, 2011, there were no outstanding share options under the 2004 Scheme and 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 47,094,238 which represented approximately 0.65% 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 AND SHARE AWARD SCHEMES OF THE COMPANY AND ITS SUBSIDIARIES

(CONTINUED)

1. The Company (continued)

A. Share Option Schemes (continued)

Details of the share options outstanding and movements during the year ended December 31, 2011 are as follows:

(i) 1994 Scheme

(1) Outstanding options as at January 1, 2011 and as at December 31, 2011

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 as at 01.01.2011	Number of options Outstanding as at 12.31.2011
Director/Chief Executive						
Lee Chi Hong, Robert	07.25.2003	07.25.2004 – 07.25.2006	07.25.2004 – 07.23.2013	4.3500	5,000,000	5,000,000
Sir David Ford	07.25.2003	07.25.2004 – 07.25.2006	07.25.2004 – 07.23.2013	4.3500	1,000,000	1,000,000
Alexander Anthony Arena	02.20.2001 07.25.2003	08.26.2001 – 08.26.2005 07.25.2004 – 07.25.2006	08.26.2001 – 01.22.2011 07.25.2004 – 07.23.2013	16.8400 4.3500	1,600,000 6,400,000	(Note 6) (Note 6)
Peter Anthony Allen	02.20.2001 07.25.2003	08.26.2001 – 08.26.2005 07.25.2004 – 07.25.2006	08.26.2001 – 01.22.2011 07.25.2004 – 07.23.2013	16.8400 4.3500	178,600 2,000,000	(Note 6) (Note 6)
Chung Cho Yee, Mico	02.20.2001 07.25.2003	08.26.2001 – 08.26.2005 07.25.2004 – 07.25.2006	08.26.2001 – 01.22.2011 07.25.2004 – 07.23.2013	16.8400 4.3500	1,060,000 5,695,200	(Note 6) (Note 6)
Employees						
In aggregate	01.22.2001 – 02.20.2001	(Note 3)	(Note 3)	16.8400	4,852,959	–
	02.20.2001	02.08.2002 – 02.08.2004	02.08.2002 – 02.08.2011	18.7600	86,700	–
	04.17.2001 – 05.16.2001	(Note 4)	(Note 4)	10.3000	1,039,000	–
	07.16.2001 – 09.15.2001	07.16.2002 – 07.16.2004	07.16.2002 – 07.16.2011	9.1600	169,120	–
	05.10.2002	(Note 5)	04.11.2003 – 04.11.2012	7.9150	86,700	86,700
	08.01.2002	08.01.2003 – 08.01.2005	08.01.2003 – 07.31.2012	8.0600	200,000	200,000
	11.13.2002	11.13.2003 – 11.13.2005	11.13.2003 – 11.12.2012	6.1500	5,480,000	5,480,000
	07.25.2003	07.25.2004 – 07.25.2006	07.25.2004 – 07.23.2013	4.3500	29,054,338	34,320,538
	09.16.2003	09.16.2004 – 09.16.2006	09.16.2004 – 09.14.2013	4.9000	7,000	7,000
Others						
	01.22.2001 – 02.20.2001	(Note 3)	(Note 3)	16.8400	2,800,000	–
	07.25.2003	07.25.2004 – 07.25.2006	07.25.2004 – 07.23.2013	4.3500	1,000,000	1,000,000

SHARE OPTION SCHEMES AND SHARE AWARD SCHEMES OF THE COMPANY AND ITS SUBSIDIARIES

(CONTINUED)

1. The Company (continued)

A. Share Option Schemes (continued)

(i) 1994 Scheme (continued)

(2) Options exercised during the year ended December 31, 2011

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

(3) Options cancelled or lapsed during the year ended December 31, 2011

Name or category of participant	Exercise price (HK\$)	Number of options cancelled	Number of options lapsed
Employees			
In aggregate	16.8400	–	7,691,559
	18.7600	–	86,700
	10.3000	–	1,039,000
	9.1600	–	169,120
	4.3500	–	8,829,000
Others	16.8400	–	2,800,000

(ii) 2004 Scheme

There were no outstanding share options as at January 1, 2011 and December 31, 2011. No share options were granted to or exercised by any directors or chief executives of the Company or employees of the Group or other participants nor cancelled or lapsed during the year ended December 31, 2011.

B. 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, 2011, no awards have been made to any directors and employees of the Company or its subsidiaries under these two schemes.

SHARE OPTION SCHEMES AND SHARE AWARD SCHEMES OF THE COMPANY AND ITS SUBSIDIARIES

(CONTINUED)

2. HKT Trust and HKT Limited

A. Share Stapled Units Option Scheme

The HKT Trust and HKT Limited conditionally adopted on November 7, 2011 a Share Stapled Units option scheme (the “HKT 2011-2021 Option Scheme”) which became effective upon listing of the Share Stapled Units jointly issued by the HKT Trust and HKT Limited. Under the HKT 2011-2021 Option Scheme, the board of directors of HKT Management Limited (the “Trustee-Manager Board”) and the board of directors of HKT (the “HKT Board”) may, at their discretion, grant Share Stapled Unit options to the Eligible Participants (as defined below) to subscribe for such number of Share Stapled Units as the Trustee-Manager Board and the HKT Board may determine at a subscription price on and subject to the terms and conditions stipulated therein.

(1) Purpose

The purpose of the HKT 2011-2021 Option Scheme is to enable the HKT Trust and HKT Limited, acting jointly by mutual agreement between them, to grant options to the Eligible Participants as incentives or rewards for their contribution to the growth of the HKT Group and to provide the HKT Group with a more flexible means to reward, remunerate, compensate and/or provide benefits to the Eligible Participants.

(2) Eligible Participant

Eligible Participants include (a) any full-time or part-time employees of HKT and/or any of its subsidiaries; (b) any director (including executive, non-executive or independent non-executive director) of HKT and/or any of its subsidiaries; and (c) any consultant or adviser (whether professional or otherwise and whether on an employment or contractual or honorary basis or otherwise and whether paid or unpaid), distributor, contractor, supplier, service provider, agent, customer and business partner of HKT and/or any of its subsidiaries.

HKT Management Limited is not an Eligible Participant under the HKT 2011-2021 Option Scheme.

(3) Total number of Share Stapled Units available for issue

- (i) Notwithstanding any other provisions of the HKT 2011-2021 Option Scheme, no options may be granted under the HKT 2011-2021 Option Scheme if the exercise of the option may result in PCCW ceasing to hold at least 51% of the Share Stapled Units in issue (on a fully diluted basis assuming full conversion or exercise of all outstanding options and other rights of subscription, conversion and exchange for Share Stapled Units).
- (ii) Subject to the further limitation in (i) above, as required by the Listing Rules the total number of Share Stapled Units which may be issued upon exercise of all options to be granted under the HKT 2011-2021 Option Scheme and any other share option schemes of the HKT Trust and HKT Limited must not, in aggregate, exceed 10% of the issued Share Stapled Units as at November 29, 2011 (the listing date of the Share Stapled Units jointly issued by the HKT Trust and HKT Limited) (the “HKT Listing Date”) unless the approval of holders of Share Stapled Units has been obtained.
- (iii) In addition, as prescribed by the Listing Rules, the maximum aggregate number of Share Stapled Units which may be issued upon exercise of all outstanding options granted and yet to be exercised under the HKT 2011-2021 Option Scheme and any other share option schemes of the HKT Trust and HKT Limited must not exceed 30% of the issued Share Stapled Units from time to time. No options may be granted under the HKT 2011-2021 Option Scheme if this will result in such limit being exceeded.

(4) The maximum entitlement of each Eligible Participant

The maximum entitlement of each Eligible Participant (other than a substantial holder of Share Stapled Units or an independent non-executive director of HKT and HKT Management Limited, or any of their respective associates) under the HKT 2011-2021 Option Scheme is that the total number of Share Stapled Units issued and to be issued upon exercise of all options granted and to be granted to such Eligible Participant (including exercised, cancelled and outstanding options under the HKT 2011-2021 Option Scheme) in the 12-month period up to and including the date of such further grant does not exceed 1% of the issued Share Stapled Units as at the relevant time. Any further grant of Share Stapled Units in excess of this limit is subject to the separate approval of the holders of Share Stapled Units in general meeting with such Eligible Participant and his associates abstaining from voting.

SHARE OPTION SCHEMES AND SHARE AWARD SCHEMES OF THE COMPANY AND ITS SUBSIDIARIES

(CONTINUED)

2. HKT Trust and HKT Limited (continued)

A. Share Stapled Units Option Scheme (continued)

(5) Option period

An option may be exercised in whole or in part in accordance with the terms of the HKT 2011-2021 Option Scheme at any time during a period to be notified by the Trustee-Manager Board and the HKT Board to each grantee, the expiry date of such period not to exceed ten (10) years from the date of grant of the option.

(6) Minimum period for which an option must be held before it is vested

The period within which an option may be exercised under the HKT 2011-2021 Option Scheme will be determined by the Trustee-Manager Board and the HKT Board at their absolute discretion, provided that such terms and conditions shall not be inconsistent with any other terms and conditions of the HKT 2011-2021 Option Scheme.

(7) Payment on acceptance of the option

Upon acceptance of the offer, the grantee shall pay HK\$1.00 to HKT by way of consideration for the grant and the date on which the option is offered shall be deemed to be the date of grant of the relevant option, except in determining the date of grant for the purpose of calculating the subscription price in accordance with the provisions of the HKT 2011-2021 Option Scheme.

(8) Basis of determining the subscription price

The subscription price for Share Stapled Units in respect of any particular option granted shall be such price as the Trustee-Manager Board and the HKT Board shall determine, provided that such price shall not be less than the highest of (i) the closing price per Share Stapled Unit on the Main Board as stated in the Stock Exchange's daily quotation sheet on the date of offer of the option, which must be a business day; and (ii) the average of the closing prices of a Share Stapled Unit on the Main Board as stated in the Stock Exchange's daily quotation sheets for the five (5) business days immediately preceding the date of offer of the option; and (iii) the aggregate of the nominal values of the preference share and ordinary share components of a Share Stapled Unit.

(9) The remaining life of the HKT 2011-2021 Option Scheme

Subject to the earlier termination by an ordinary resolution in general meeting of registered holders of Share Stapled Units or resolutions of the HKT Board, the HKT 2011-2021 Option Scheme shall be valid and effective for a period of ten (10) years commencing from the date of its adoption, after which period no further options will be offered or granted but the provisions of the HKT 2011-2021 Option Scheme shall remain in full force and effect in all other respects with respect to options granted during the life of the HKT 2011-2021 Option Scheme.

No Share Stapled Units option has been granted under the HKT 2011-2021 Option Scheme since the date of its adoption. Accordingly, there were no outstanding options under the HKT 2011-2021 Option Scheme as at the HKT Listing Date and December 31, 2011 and no options were granted to or exercised by any directors of HKT and HKT Management Limited or the chief executive of HKT or employees of HKT and its subsidiaries (the "HKT Limited Group") or other participants nor cancelled or lapsed during the period ended December 31, 2011.

SHARE OPTION SCHEMES AND SHARE AWARD SCHEMES OF THE COMPANY AND ITS SUBSIDIARIES

(CONTINUED)

2. HKT Trust and HKT Limited (continued)

B. Share Stapled Units Award Schemes

On October 11, 2011, HKT conditionally adopted two award schemes pursuant to which awards of Share Stapled Units may be made, namely the HKT Share Stapled Units Purchase Scheme and the HKT Share Stapled Units Subscription Scheme (collectively the “HKT Share Stapled Units Award Schemes”). The HKT Share Stapled Units Award Schemes are on similar terms and were conditionally adopted by HKT which became effective upon listing of the Share Stapled Units jointly issued by the HKT Trust and HKT Limited as a potential means to incentivize and reward the eligible participants.

In the case of the HKT Share Stapled Units Purchase Scheme, the eligible participants include (a) any full-time or part-time employees of HKT and/or any of its subsidiaries; and (b) any director (including executive, non-executive and independent non-executive director) of HKT and/or any of its subsidiaries.

In the case of the HKT Share Stapled Units Subscription Scheme, the eligible participants are the same as the eligible participants in respect of the HKT Share Stapled Units Purchase Scheme, as referred to above, except that the directors of HKT or its subsidiaries and/or any other connected persons of HKT are not eligible participants. The reason why directors of HKT or any of its subsidiaries (or any other connected persons) are excluded from participation is to avoid the connected transactions that would otherwise arise on the allotment of new Share Stapled Units to the Trustee (as defined below) to be held on trust for such directors (or other connected persons).

The HKT Share Stapled Units Award Schemes are administered by the HKT Board and an independent trustee (the “Trustee”), as trustee appointed to hold the relevant Share Stapled Units until such time as the Share Stapled Units vest in the selected participants.

Subject to the rules of the HKT Share Stapled Units Award Schemes, each scheme provides that following the making of an award to an employee of the HKT Limited Group, the relevant Share Stapled Units are held in trust for that employee and then shall vest over a period of time provided that the employee remains, at all times after the award date and on the relevant vesting date, an employee of the HKT Limited Group and satisfies any other conditions specified at the time the award is made. During the period ended December 31, 2011, no awards have been made to any directors or employees of the HKT Limited Group under the HKT Share Stapled Units Award Schemes.

3. Pacific Century Premium Developments Limited (“PCPD”)

Share Option Scheme

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.

SHARE OPTION SCHEMES AND SHARE AWARD SCHEMES OF THE COMPANY AND ITS SUBSIDIARIES

(CONTINUED)

3. Pacific Century Premium Developments Limited (“PCPD”) (continued)

Share Option Scheme (continued)

Details of the share options outstanding under the 2003 PCPD Scheme and movements during the year ended December 31, 2011 are as follows:

2003 PCPD Scheme

(1) Outstanding options as at January 1, 2011 and as at December 31, 2011

Name or category of participant	Date of grant	Vesting period	Exercisable period	Exercise price	Number of options	
	(Note 1)	(Note 1)	(Note 1)	(HK\$)	Outstanding as at 01.01.2011	Outstanding as at 12.31.2011
Director of the Company						
Chung Cho Yee, Mico	12.20.2004	Fully vested on 12.20.2004	12.20.2004 – 12.19.2014	2.375	5,000,000	(Note 7)

As at December 31, 2011, 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, 2011

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

(3) Options exercised during the year ended December 31, 2011

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

(4) Options cancelled or lapsed during the year ended December 31, 2011

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:

- All dates are shown month/day/year.
- 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.
- 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 (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.
- 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.
- These options vest in installments during a period starting from the first anniversary of the Offer Date and ending on the third anniversary of the Offer Date inclusive.
- As Alexander Anthony Arena, Peter Anthony Allen and Chung Cho Yee, Mico all resigned as directors of the Company effective November 29, 2011, their outstanding share options and/or options lapsed were reclassified to “Employees” under the Schemes.
- Chung Cho Yee, Mico resigned as a director of the Company on November 29, 2011.

SHARE OPTION SCHEMES AND SHARE AWARD SCHEMES OF THE COMPANY AND ITS SUBSIDIARIES*(CONTINUED)*

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, share stapled units in, or debentures of, the Company or any other body corporate and none of the directors or chief executives of the Company or their spouses or children under 18 years of age had any right to subscribe for equity, share stapled units 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, 2011, the following persons (other than any directors or chief executives 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 pursuant to Section 336 of the SFO:

Name of shareholder	Note	Number of shares/underlying shares held	Approximate percentage of issued share capital
Interests			
PCRD		1,548,211,301	21.29%
PCGH	1	1,702,996,478	23.42%
Star Ocean Ultimate Limited	2	1,702,996,478	23.42%
The Ocean Trust	2	1,702,996,478	23.42%
The Starlite Trust	2	1,702,996,478	23.42%
OS Holdings Limited	2	1,702,996,478	23.42%
Ocean Star Management Limited	2	1,702,996,478	23.42%
The Ocean Unit Trust	2	1,702,996,478	23.42%
The Starlite Unit Trust	2	1,702,996,478	23.42%
China United Network Communications Group Company Limited ("Unicom")	3	1,343,571,766	18.48%

Notes:

- These interests represented (i) PCGH's beneficial interests in 154,785,177 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 1,548,211,301 shares held by PCRD.
- On April 18, 2004, Li Tzar Kai, Richard transferred the entire issued share capital of PCGH to Ocean Star Management Limited as trustee of The Ocean Unit Trust and The Starlite Unit Trust. The entire issued share capital of Ocean Star Management Limited was held by OS Holdings Limited. The Ocean Trust and The Starlite Trust held all units of The Ocean Unit Trust and The Starlite Unit Trust respectively. Star Ocean Ultimate Limited was the discretionary trustee of The Ocean Trust and The Starlite Trust.
- Unicom indirectly held these interests through its indirect wholly-owned subsidiary, China Netcom Corporation (BVI) Limited.
- As at December 31, 2011, the Company had a total of 7,272,294,654 shares in issue.

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

As at December 31, 2011, the following person (not being a 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 pursuant to Section 336 of the SFO:

Name		Number of shares/underlying shares held	Approximate percentage of issued share capital
Interests			
Ocean Star Investment Management Limited	<i>Note</i>	1,702,996,478	23.42%

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 executives 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, 2011.

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

During the year ended December 31, 2011, the interests of the directors of the Company in competing business required to be disclosed pursuant to rule 8.10 of the Listing Rules were 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 (<i>Note 1</i>)
	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 (<i>Note 2</i>)
Lu Yimin	Unicom and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Vice Chairman and President of Unicom
	China United Network Communications Limited ("Unicom A-Share") and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Director and President of Unicom A-Share
	China Unicom (Hong Kong) Limited ("Unicom HK") and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Executive Director and President of Unicom HK
Li Fushen	Unicom and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Vice President and Chief Accountant of Unicom
	Unicom A-Share and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Director of Unicom A-Share
	Unicom HK and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Executive Director and Chief Financial Officer of Unicom HK
Li Gang	Unicom and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Vice President of Unicom
	Unicom HK and its subsidiaries	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 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 is a director and Chairman of PCRD. PCRD is an investment holding company having interests in telecommunications and media (through the Company), financial services, property and infrastructure 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 Executives' Interests and Short Positions in Shares, Share Stapled Units, Underlying Shares, Underlying Share Stapled Units and Debentures of the Company and its Associated Corporations**" 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.

CHARITABLE DONATIONS

During the year, the Group made charitable donations of approximately HK\$0.1 million (2010: HK\$0.4 million).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended December 31, 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

CONTINUING CONNECTED TRANSACTIONS

During the year ended December 31, 2011, the Group has entered into certain transactions which constituted continuing connected transactions (as defined in the Listing Rules) and details of these transactions are set out as follows in accordance with the Listing Rules:

1. China United Network Communications Group Company Limited (“Unicom”) and its subsidiaries and associates (collectively the “Unicom Group”)

China Netcom Corporation (BVI) Limited (“China Netcom BVI”), an indirect wholly-owned subsidiary of Unicom, is a substantial shareholder and connected person (as defined in the Listing Rules) of the Company. In addition, Unicom’s indirect subsidiary is a substantial shareholder of 聯通黃頁信息有限公司 (Unicom Yellow Pages Information Co., Ltd.), an indirect subsidiary of the Company. Accordingly, members of the Unicom Group are connected persons of the Company and transactions between the Group and the Unicom Group constitute connected transactions for the Company under the Listing Rules.

The Group has, from time to time, entered into transactions with the Unicom Group relating to (i) the acquisition and provision of certain information technology services and products (the “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 Unicom Transactions collectively referred to as the “CU Transactions”). These transactions constituted continuing connected transactions of the Company under the Listing Rules.

It is considered that the entering into of the Unicom Transactions with the Unicom Group is consistent with the commercial objectives of the Group and falls within the core business of the Group. It is anticipated that the entering into of the Unicom Transactions with the Unicom Group will further strengthen the Group’s position as a provider of the information technology services in the People’s Republic of China (the “PRC”).

It is considered that the entering into of the Lease and Facility and Management Services with the Unicom 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 23, 2009, the Company set an annual cap for each of the following categories of the Unicom Transactions for the financial year ended December 31, 2011 based on the nature of transactions from time to time entered into with the Unicom Group:

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

The consideration for each of the above categories of the Unicom Transactions is or will be a fixed sum set out in the relevant agreements between the relevant parties, settled in accordance with the terms set out therein 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 Unicom 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 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”) and the IPLC services agreements relating to the grant of the rights to use the bandwidth capacity of international private leased circuit services in the form of service orders (the “IPLC Services Agreements”) available on both groups’ networks to and/or from the Unicom Group. The IPLC Services Agreements are not materially different in nature to the IRU Contracts.

CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

1. China United Network Communications Group Company Limited (“Unicom”) and its subsidiaries and associates (collectively the “Unicom Group”) (continued)

The Group may from time to time enter into the IRU Contracts and the IPLC Services Agreements which are categorized under data services (as mentioned above) and are part of the normal commercial activities of the Group. Access Capital Limited (now known as Investec Capital Asia Limited) (“Access Capital”), an independent financial adviser, which was appointed by the Company in accordance with the Listing Rules to advise on the duration of the provision of the IRU Contracts, confirmed that it was normal business practice for the provision of the IRU Contracts to be of a duration exceeding three years and be for a term up to 15 years. Access Capital, an independent financial adviser, which was appointed by the Company in accordance with the Listing Rules to advise on the duration of the IPLC Services Agreements, was of the opinion that it was (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 international private leased circuit 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 Unicom Group) and five years (from the Unicom Group to the Group).

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

Category	Approximate aggregate value for the financial year ended December 31, 2011 (HK\$'000)	Annual cap for the Unicom Group for the financial year ended December 31, 2011 (HK\$'000)
(1) Provision of data services by the Group to the Unicom Group	77,103	400,000
(2) Provision of data services by the Unicom Group to the Group	44,356	550,000
(3) Provision of systems integration services by the Group to the Unicom Group	203,757	550,000

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 China Network Communications Group Corporation (“CNC”) in January 2008 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, PRC. As disclosed in the Company’s announcement dated January 4, 2008, Access Capital, an independent financial adviser, which was appointed by the Company 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, 2011 was HK\$16,174,070 which did not exceed the annual cap for the fourth year of the 15-year term of HK\$31,620,000.

CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

2. Renewal of Annual Caps of Continuing Connected Transactions

On January 17, 2012, the Company made an announcement regarding the renewal of the annual caps for each of the above three categories of the Unicom Transactions for each of the three financial years ending December 31, 2014 entered or to be entered into with the Unicom Group from time to time.

3. Annual Review of Continuing Connected Transactions

The Company's external auditor was engaged to report on the CU Transactions entered into by the Group for the year ended December 31, 2011 in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The external auditor has issued their unqualified letter containing their findings and conclusions in respect of the CU Transactions in accordance with rule 14A.38 of the Listing Rules.

The Board, including the independent non-executive directors of the Company, has reviewed and confirmed that the CU Transactions for the year ended December 31, 2011 were entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and
- (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in normal course of business are set out in note 5 to the consolidated financial statements. In relation to those related party transactions 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, 2011 have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at 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

Chu Mee Lai, Helen

Company Secretary

Hong Kong, February 28, 2012

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

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 (together the “Group”) set out on pages 50 to 137, which comprise the consolidated and company balance sheets as at December 31, 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company statements of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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, 2011 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, February 28, 2012

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PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2011

In HK\$ million (except for earnings per share)	Note(s)	2010	2011
Turnover	6 & 7	22,962	24,638
Cost of sales		(10,533)	(11,397)
General and administrative expenses		(8,924)	(9,604)
Other gains, net	8	1,217	143
Interest income		27	71
Finance costs	10	(1,587)	(1,565)
Share of results of associates		47	44
Share of results of jointly controlled companies		(129)	(12)
Profit before income tax	7 & 9	3,080	2,318
Income tax	12	(756)	(542)
Profit for the year		2,324	1,776
Attributable to:			
Equity holders of the Company		1,926	1,607
Non-controlling interests		398	169
Profit for the year		2,324	1,776
Earnings per share	15		
Basic		27.75 cents	22.10 cents
Diluted		27.75 cents	22.10 cents

The notes on pages 56 to 137 form part of these consolidated financial statements. Details of dividend payable to equity holders of the Company attributable to the profit for the year are set out in note 14.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2011

In HK\$ million	2010	2011
Profit for the year	2,324	1,776
Other comprehensive income		
Translation exchange differences:		
– exchange differences on translating foreign operations	436	269
Available-for-sale financial assets:		
– changes in fair value	27	97
– transfer to income statement on disposal	(10)	–
Cash flow hedges:		
– effective portion of changes in fair value	24	16
– transfer from equity to income statement	(94)	(49)
Other comprehensive income for the year	383	333
Total comprehensive income for the year	2,707	2,109
Attributable to:		
Equity holders of the Company	2,205	1,833
Non-controlling interests	502	276
Total comprehensive income for the year	2,707	2,109

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

CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY

For the year ended December 31, 2011

In HK\$ million	Note(s)	The Group 2010			The Company 2010
		Attributable to equity holders of the Company	Non-controlling interests	Total equity	Total equity
At January 1, 2010		(5,445)	3,420	(2,025)	28,623
Total comprehensive income for the year		2,205	502	2,707	1,949
Dividend paid in respect of previous year	14 & 33	(901)	–	(901)	(901)
Dividend declared and paid in respect of the current year	14 & 33	(370)	–	(370)	(370)
Dividend declared and paid to non-controlling shareholders of subsidiaries		–	(1,267)	(1,267)	–
Issue of ordinary shares, net of issuing expenses		1,279	–	1,279	1,279
Increase in ownership interest in a subsidiary	43	(31)	–	(31)	–
At December 31, 2010		(3,263)	2,655	(608)	30,580

In HK\$ million	Note(s)	The Group 2011			The Company 2011
		Attributable to equity holders of the Company	Non-controlling interests	Total equity	Total equity
At January 1, 2011		(3,263)	2,655	(608)	30,580
Total comprehensive income for the year		1,833	276	2,109	169
Dividend paid in respect of previous year	14 & 33	(742)	–	(742)	(742)
Dividend declared and paid in respect of the current year	14 & 33	(385)	–	(385)	(385)
Special dividend in specie	14 & 33	(1,443)	–	(1,443)	(1,443)
Dividend declared and paid to non-controlling shareholders of a subsidiary		–	(35)	(35)	–
Dilution of interest in HKT Group	33	10,104	(1,420)	8,684	–
At December 31, 2011		6,104	1,476	7,580	28,179

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

CONSOLIDATED AND COMPANY BALANCE SHEETS

As at December 31, 2011

In HK\$ million	Note(s)	The Group		The Company	
		2010	2011	2010	2011
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	16	15,452	15,477	–	–
Investment properties	17	5,085	5,384	–	–
Interests in leasehold land	18	552	530	–	–
Properties held for/under development	19	1,052	1,105	–	–
Goodwill	20	3,170	3,170	–	–
Intangible assets	21	2,388	2,812	–	–
Investments in subsidiaries	22	–	–	12,089	12,089
Interests in associates	23	233	402	–	–
Interests in jointly controlled companies	24	477	515	–	–
Held-to-maturity investments		2	2	–	–
Available-for-sale financial assets	25	281	575	–	–
Derivative financial instruments	29	152	275	–	–
Deferred income tax assets	34(a)	78	148	–	–
Other non-current assets		465	514	–	–
		29,387	30,909	12,089	12,089
Current assets					
Properties for sale	19	772	455	–	–
Amounts due from subsidiaries	22(a)	–	–	18,262	17,423
Sales proceeds held in stakeholders' accounts	26(a)	845	632	–	–
Restricted cash	26(b)	2,281	735	32	32
Prepayments, deposits and other current assets	26(c)	3,226	3,497	10	10
Inventories	26(d)	957	1,166	–	–
Amounts due from related companies	5(d)	2	–	–	–
Derivative financial instruments	29	17	–	–	–
Trade receivables, net	26(e)	2,529	3,084	–	–
Tax recoverable		16	7	–	–
Cash and cash equivalents	36(c)	8,101	5,365	194	87
		18,746	14,941	18,498	17,552
Current liabilities					
Short-term borrowings	26(f)	(7,800)	(40)	–	–
Trade payables	26(g)	(1,705)	(1,777)	–	–
Accruals and other payables		(4,005)	(4,134)	(7)	(19)
Amount payable to the Government under the Cyberport Project Agreement	28	(1,606)	(603)	–	–
Carrier licence fee liabilities	35	(143)	(187)	–	–
Amounts due to related companies	5(d)	(57)	(27)	–	–
Advances from customers		(1,860)	(1,750)	–	–
Current income tax liabilities		(568)	(786)	–	–
Dividend payable	14 & 33	–	(1,443)	–	(1,443)
		(17,744)	(10,747)	(7)	(1,462)
Net current assets		1,002	4,194	18,491	16,090
Total assets less current liabilities		30,389	35,103	30,580	28,179

CONSOLIDATED AND COMPANY BALANCE SHEETS (CONTINUED)

As at December 31, 2011

In HK\$ million	Note	The Group		The Company	
		2010	2011	2010	2011
Non-current liabilities					
Long-term borrowings	27	(27,041)	(23,470)	–	–
Derivative financial instruments	29	(102)	–	–	–
Deferred income tax liabilities	34(a)	(2,109)	(2,222)	–	–
Deferred income		(727)	(893)	–	–
Defined benefit liability	31(a)(i)	(4)	(3)	–	–
Carrier licence fee liabilities	35	(895)	(815)	–	–
Other long-term liabilities		(119)	(120)	–	–
		(30,997)	(27,523)	–	–
Net (liabilities)/assets		(608)	7,580	30,580	28,179
CAPITAL AND RESERVES					
Share capital	30	1,818	1,818	1,818	1,818
(Deficit)/Reserves	33	(5,081)	4,286	28,762	26,361
Equity attributable to equity holders					
of the Company		(3,263)	6,104	30,580	28,179
Non-controlling interests		2,655	1,476	–	–
Total equity		(608)	7,580	30,580	28,179

Approved and authorized for issue by the Board of Directors on February 28, 2012 and signed on behalf of the Board by

Chan Ching Cheong, George
Director

Hui Hon Hing, Susanna
Director

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2011

In HK\$ million	Note	2010	2011
NET CASH GENERATED FROM OPERATING ACTIVITIES	36(a)	5,920	6,778
INVESTING ACTIVITIES			
Proceeds from disposals of property, plant and equipment		6	23
Purchases of property, plant and equipment		(1,798)	(1,960)
Payment for investment properties		–	(27)
Purchases of intangible assets		(1,356)	(1,902)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	36(b)	(8)	–
Contingent consideration paid for subsidiaries acquired		(85)	–
Acquisition of associates		–	(56)
Acquisition of jointly controlled companies		–	(7)
Capital contribution to an associate		–	(28)
Loan to an associate		–	(71)
Loan to a jointly controlled company		(1)	(41)
Proceeds from disposal of an associate		17	–
Purchases of available-for-sale financial assets		(28)	(229)
Proceeds from disposals of available-for-sale financial assets		101	31
Interest received		86	154
Dividend received from associates		14	40
Consideration paid to non-controlling interests for an increase in ownership interest in a subsidiary	43	(31)	–
NET CASH USED IN INVESTING ACTIVITIES		(3,083)	(4,073)
FINANCING ACTIVITIES			
Proceeds from dilution of interest in HKT Group		–	9,302
Listing expenses paid		–	(360)
Proceeds from issuance of ordinary shares, net of issuing expenses		1,279	–
Finance fees paid for new borrowings raised		(302)	–
New borrowings raised		16,152	6,251
Interest paid		(1,358)	(1,528)
Repayments of borrowings		(16,112)	(17,975)
Dividends paid to shareholders of the Company		(1,271)	(1,127)
Dividends paid to non-controlling shareholders of subsidiaries		(1,267)	(35)
Decrease in restricted cash		21	–
NET CASH USED IN FINANCING ACTIVITIES		(2,858)	(5,472)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(21)	(2,767)
Exchange differences		73	31
CASH AND CASH EQUIVALENTS			
Beginning of year		8,049	8,101
End of year	36(c)	8,101	5,365

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011

(Amount expressed in Hong Kong dollars unless otherwise stated)

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 38th Floor, Citibank Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong. The principal activities of the Company and its subsidiaries (together 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 region.

2 GLOBAL OFFERING OF HKT TRUST AND HKT LIMITED

In November 2011, HKT Trust and HKT Limited completed a global offering of its share stapled units (“Share Stapled Units”) and its listing on the Main Board of the Stock Exchange (the “HKT Trust Global Offering”). Immediately after the HKT Trust Global Offering, the Group’s interest in HKT Trust, HKT Limited (“HKT”) and its subsidiaries (collectively the “HKT Group”) was diluted to 68% and the Group continues to control the HKT Group. Accordingly, the Group continues to consolidate the results and assets and liabilities of the HKT Group after the HKT Trust Global Offering. The financial effects of the dilution of interest in HKT Group to the Group are set out in note 33(b).

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

a. Statement of compliance

These consolidated 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.

b. Basis of preparation of the financial statements

The following new HKFRSs are mandatory for the first time for the financial year beginning January 1, 2011, but have no material effect on the Group’s results and financial position for the current and prior accounting periods.

- HKFRS 1 (Revised) (Amendment), ‘First-time Adoption of Hong Kong Financial Reporting Standards’.
- HKAS 24 (Revised), ‘Related Party Disclosures’.
- HKAS 32 (Amendment), ‘Financial Instruments: Presentation’.
- HK(IFRIC) – Int 14 (Amendment), ‘HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction’.
- HK(IFRIC) – Int 19, ‘Extinguishing Financial Liabilities with Equity Instruments’.
- Improvements to HKFRSs 2010 issued in May 2010 by the HKICPA.

The Group has not adopted any new or revised standard or interpretation that is not yet effective for the current accounting period, details of which are set out in note 44.

The consolidated financial statements for the year ended December 31, 2011 comprise the financial statements of the Company and its subsidiaries, and the Group’s interests in associates and jointly controlled companies.

The measurement basis used in the preparation of the financial statements is its 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 3(g));
- available-for-sale financial assets (see note 3(m)(iii)); and
- derivative financial instruments (see note 3(o)).

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of 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 adjustment in the next year are discussed in note 4.

c. Subsidiaries and non-controlling 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 acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the aggregate fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration transferred includes the fair value of any asset, liability or equity resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (see note 3(k)). If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated income statement. Where businesses are acquired and fair values of the net assets of the acquired business are finalized within 12 months of the acquisition date, all fair value adjustments are recorded with effect from the date of acquisition and consequently may result in the restatement of previously reported financial results (see note 42).

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

c. Subsidiaries and non-controlling interests (continued)

Non-controlling 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. Non-controlling interests are presented within equity in the consolidated balance sheet and consolidated statement of changes in equity, separately from equity attributable to the equity holders of the Company. Non-controlling 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 non-controlling interests and the equity holders of the Company.

Where losses applicable to the non-controlling interests exceed the non-controlling shareholder's interest in the equity of a subsidiary, the excess, and any further losses applicable to the non-controlling interests, are charged against the Group's interest except to the extent that the non-controlling shareholder 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 non-controlling shareholder'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.

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.

In the Company's balance sheet, investments in subsidiaries are stated at cost less impairment losses (see note 3(n)(ii)). Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. 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. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss 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 and any impairment losses for the year. The consolidated statement of comprehensive income includes the Group's share of the post-acquisition post-tax items of the associates' other comprehensive income.

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 consolidated income statement.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

In the Company's balance sheet, investments in associates are stated at cost less impairment losses (see note 3(n)(ii)). The results of associates are accounted for by the Company on the basis of dividends received and receivable.

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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.

Investments in jointly controlled companies are accounted for in the consolidated financial statements under the equity method, as described in note 3(d).

In the Company's balance sheet, investments in jointly controlled companies are stated at cost less impairment losses (see note 3(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 3(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 3(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 10 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.

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

g. Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 3(h)) to earn rental income and/or for capital appreciation, and which are not occupied by the companies in the consolidated Group. Property that is being constructed or developed for future use as investment property is classified as investment property.

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 3(x)(iv).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 3(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 3(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.

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 3(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 3(f). Impairment losses are accounted for in accordance with the accounting policy as set out in note 3(n)(ii). Revenue arising from operating leases is recognized in accordance with the Group's revenue recognition policies, as set out in note 3(x)(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 3(g)) or is held for development (see note 3(i)).

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

i. Properties held for/under development

Properties under development 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 interest incurred on loans directly attributable to the development prior to the completion of construction. The 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 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.

Properties held for development represent interests in land held for future development which are stated in the balance sheet at cost less impairment losses.

j. Properties for sale

Properties for sale represent completed properties available for sale which are stated at the lower of cost and net realizable value. They are classified under current assets.

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 at the date of acquisition.

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 3(n)(ii)). In respect of associates and jointly controlled companies, the carrying amount of goodwill is included in the carrying amount of the interests 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.

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. Carrier licences

The carrier licences to establish and maintain the telecommunication network and to provide telecommunication services are recorded as intangible assets. 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.

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

i. Intangible assets (other than goodwill) (continued)

iii. Capitalized programme costs

Costs incurred to produce or acquire television rights for which the Group can determine the broadcasting schedules, are capitalized as “intangible assets”. The intangible assets are amortized on an accelerated basis over the shorter of the expected economic life and the licence period. Other costs incurred for the transmission rights for showing programmes, sports events and films on the Group’s television channels, including sport rights for multiple seasons or competitions, of which the broadcasting schedules are determined by the content providers, are recognized in the income statement on a straight-line basis over the period of transmission rights across the season or competition. Other 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.

iv. Other intangible assets

Other intangible assets that are acquired by the Group are stated in the consolidated balance sheet at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (see note 3(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
Capitalized programme costs	1 to 4 years
Wireless broadband licence	Over the term of licence
Carrier licences	Over the term of licence, commencing from the date of launch of the relevant telecommunication services

The assets’ useful lives and their amortization methods are reviewed annually.

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 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 3(n)(i)). 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 re-measured, 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 3(x)(vi) and 3(x)(viii) respectively.

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

m. Investments in debt and equity securities (continued)

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 3(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 re-measured, with any unrealized holding gains or losses arising from the changes in fair value being recognized in other comprehensive income and accumulated separately in the available-for-sale financial assets reserve under equity, except for impairment losses (see note 3(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 3(x)(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 3(x)(vi). When the investments are derecognized or impaired (see note 3(n)(i)), the cumulative gain or loss previously recognized directly in the equity is recognized in the income statement.

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.

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 3(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; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets.

3 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)

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 in other comprehensive income and accumulated separately 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.

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.

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

n. Impairment of assets (continued)

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 associates and jointly controlled companies;
- goodwill; and
- investments in subsidiaries (at Company level).

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.

3 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 3(n)(i) and 3(n)(ii)).

Impairment losses recognized in an interim period in respect of goodwill 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 re-measured 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 3(p)).

The full fair value of a hedging derivative is classified as non-current asset or liability when the remaining hedged item has a maturity of more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

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 within "Finance costs", 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 in other comprehensive income and accumulated separately 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.

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

q. 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.

r. Construction contracts

The accounting policy for contract revenue is set out in note 3(x)(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 revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable and the 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".

s. 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 3(n)(i)).

t. 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.

u. 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.

v. 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.

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

w. 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. The increase in provision due to the passage of time is recognized as interest expense.

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.

x. Revenue recognition

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

i. Telecommunications and other services

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

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

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

For pre-completion contracts for the sale of development properties under development for which legally binding unconditional sales contracts were entered, revenue and profits are recognized upon completion of the development and when significant risks and rewards 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.

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

x. Revenue recognition *(continued)*

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.

viii. Dividend income

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

y. 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.

z. 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 in other comprehensive income or directly in equity, in which case the relevant amounts are recognized in other comprehensive income or directly in equity, respectively.
- 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 income tax payable in respect of previous year.

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

z. Income tax (continued)

- 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.

- iv. Current income tax balances and deferred income tax balances, and movements therein, are presented separately from each other and are not offset. Current income 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.

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

aa. 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.

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 expire (when it is released directly to retained profits or deficit). 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.

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

aa. Employee benefits (continued)

iii. Share-based payments (continued)

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.

bb. Translation of foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in HK dollars (HK\$), which is the Company's functional and the Group's presentation currency.

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.

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 in other comprehensive income and accumulated separately in the currency translation reserve under equity.

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

bb. Translation of foreign currencies (continued)

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 other comprehensive income and accumulated separately in 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.

cc. 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.

dd. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (the "CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group's senior executive management.

Segment revenue, expenses, results and assets 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 (including property, plant and equipment, investment properties and interests in leasehold land) that are expected to be used for more than one year.

ee. Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

Payable for dividend in specie of the Group's interests in its subsidiaries is measured at the fair value of the interests in the subsidiaries to be distributed. Upon the settlement of dividend payable, any difference between the carrying amount of the interests in the subsidiaries distributed and the carrying amount of the dividend payable is recognized in equity if the Group continues to control the subsidiaries after distribution.

4 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) and 38 contain information about the assumptions and their risk factors relating to goodwill impairment, defined benefit liability 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 and rapid advancement in technology. 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, 2011, the Group performed a 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 January 1, 2011. As a result of this change in accounting estimate, the Group's profit for the year ended December 31, 2011 has been increased by HK\$67 million and the net assets as at December 31, 2011 have been increased by HK\$67 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 classes of asset 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 associates and jointly controlled companies;
- goodwill; and
- investments in subsidiaries (at Company level).

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 amount.

4 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)

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 assessments utilizing internal resources or the Group may engage external advisors to counsel the Group. Regardless of the resources utilized, the Group is required to make many assumptions to make these assessments, 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.

The Group offers certain arrangements whereby a customer can purchase telecommunications equipment together with a fixed period of telecommunications service arrangement. When such multiple-element arrangements exist, the amount recognized as revenue upon the sale of the telecommunications equipment is the fair value of the equipment in relation to the fair value of the arrangement taken as a whole. The revenue relating to the service element, which represents the fair value of the servicing arrangement in relation to the fair value of the arrangement taken as a whole, is recognized over the service period. The fair values of each element are determined based on the current market price of each of the elements when sold separately.

Where the Group is unable to determine the fair value of each of the elements in an arrangement, it uses the residual value method. Under this method, the Group determines the fair value of the delivered element by deducting the fair value of the undelivered element from the total contract consideration.

To the extent that there is a discount on the arrangement, such discount is allocated between the elements of the contract in such a manner as to reflect the fair value of the elements.

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 the purchasers, the Group recognizes revenue in respect of the properties sold.

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

The judgement as to when risks and rewards of ownership of properties are transferred would affect the Group's profit for the year and the carrying value of properties held for sale.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Key sources of estimation uncertainty (continued)

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 properties 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 the 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 the year ended December 31, 2011 has resulted in the costs of properties sold recorded in the year ended December 31, 2011 being decreased by HK\$151 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 computations 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 will 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 – Carrier licences

In order to measure the intangible assets, HKAS 39 (revised) "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 carrier licences, 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.

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 market value approach and (ii) other principal assumptions including the receipt of contractual rentals, expected future market rentals in view of the current usage and condition of the investment properties, supported by the terms of any existing leases and other contracts, 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, 2011, the fair value of the investment properties was HK\$5,384 million.

5 RELATED PARTY TRANSACTIONS

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

In HK\$ million	Note(s)	The Group 2010	2011
Telecommunications service fees and facility management service charges received or receivable from a jointly controlled company	a & c	74	66
Telecommunications service fees and systems integration charges received or receivable from a substantial shareholder	a	241	372
Telecommunications service fees, outsourcing fees and rental charges paid or payable to a jointly controlled company	a & c	524	300
Telecommunications service fees and facility management service charges paid or payable to a substantial shareholder	a	161	270
Key management compensation	b	67	80

In addition to the above, a jointly controlled company of a subsidiary (the “JV”) issued to the Group a credit note in the amount of approximately HK\$491 million in settlement of the Group’s claims against the JV. Accordingly, the Group recorded credits to revenue, costs of sales and operating expenses in the amounts of approximately HK\$368 million, HK\$97 million and HK\$26 million, respectively.

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 2010	2011
Salaries and other short-term employee benefits	64	78
Post-employment benefits	3	2
	67	80

c. Details of transactions with the JV

During the year ended December 31, 2011, the Group, Telstra Corporation Limited (“Telstra”) and the JV completed certain transactions which resulted in the transfer to the Group and Telstra of the majority of the JV’s assets, business platforms and operations. The Group received assets and business from the JV valued at approximately HK\$644 million. The consideration was settled in part by a credit note received from the JV in the sum of approximately HK\$491 million and in part by offset against the Company’s loan to the JV. As a result, the Group benefited from the recovery of prior investments made in the JV in the amount of approximately HK\$104 million, net of related costs and expenses. After the completion of the above transactions, the JV’s business scope was significantly simplified to the provision of certain network infrastructure, network maintenance and property management. The JV continues to operate as an outsourcer of telecommunications network services for the Group and Telstra in return for outsourcing fees.

d. Amounts due from/(to) related companies

Other than as specified in this note, notes 23 and 24, balances with related parties are unsecured and non-interest bearing, and have no fixed repayment terms.

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6 TURNOVER

In HK\$ million	The Group 2010	2011
Telecommunications and other service revenue	19,553	20,378
Amounts received and receivable in respect of goods sold	2,079	2,272
Amounts received and receivable in respect of properties sold	1,100	1,710
Amounts received and receivable from rental of investment properties	230	278
	22,962	24,638

7 SEGMENT INFORMATION

The CODM is the Group's senior executive management. The CODM reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The CODM considers the business from both geographic and product perspectives. From a product perspective, management assesses the performance of the following segments:

- HKT is the leading provider of telecommunications and related services including local telephony, local data and broadband, international telecommunications, mobile, customer premises equipment sale, outsourcing, consulting and contact centers primarily in Hong Kong, mainland China and elsewhere in the world.
- Media Business includes interactive pay-TV service, Internet portal multimedia entertainment platform and the Group's directories operations in Hong Kong and mainland China.
- Solutions Business 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 Asia.
- Other Businesses include the Group's wireless broadband business in the United Kingdom and all corporate support functions.

The CODM assesses the performance of the operating segments based on a measure of adjusted earnings before interest, tax, depreciation and amortization ("EBITDA"). The 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 goodwill, tangible and intangible assets and interests in associates and jointly controlled companies, and the Group's share of results of associates and jointly controlled companies.

Segment revenue, expense 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. The revenue from external parties reported to the CODM is measured in a manner consistent with that in the consolidated income statement.

7 SEGMENT INFORMATION (CONTINUED)

Information regarding the Group's reportable segments as provided to the Group's CODM is set out below:

In HK\$ million	HKT (Note a)	Media Business	Solutions Business (Note a)	2010 Other Businesses (Note a)	PCPD	Eliminations	Consolidated
REVENUE							
External revenue	18,177	1,807	1,498	40	1,440	–	22,962
Inter-segment revenue	350	576	541	–	55	(1,522)	–
Total revenue	18,527	2,383	2,039	40	1,495	(1,522)	22,962
RESULTS							
EBITDA	7,249	232	284	(696)	284	–	7,353
OTHER INFORMATION							
Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year	1,613	128	30	11	65	–	1,847
2011							
In HK\$ million	HKT	Media Business	Solutions Business	2011 Other Businesses	PCPD	Eliminations	Consolidated
REVENUE							
External revenue	19,387	1,584	1,483	74	2,110	–	24,638
Inter-segment revenue (Note b)	438	1,123	726	–	16	(2,303)	–
Total revenue	19,825	2,707	2,209	74	2,126	(2,303)	24,638
RESULTS							
EBITDA	7,411	631	383	(842)	333	(331)	7,585
OTHER INFORMATION							
Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year	1,600	162	27	91	111	–	1,991

a. During the year ended December 31, 2011, the Group has completed an internal reorganization in connection with the HKT Trust Global Offering. As a result, management has made changes to the Group's internal reporting that caused changes to reportable segments and segment presentation. The prior year segment information has been restated to conform with the revised presentation.

b. The inter-segment revenue included certain sales by respective business segment to external customers through the other segment's billing platform.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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(Amount expressed in Hong Kong dollars unless otherwise stated)

7 SEGMENT INFORMATION (CONTINUED)

A reconciliation of total segment EBITDA to profit before income tax is provided as follows:

In HK\$ million	The Group	
	2010	2011
Total segment EBITDA	7,353	7,585
(Loss)/Gain on disposal of property, plant and equipment	(45)	1
Depreciation and amortization	(3,800)	(3,949)
Other gains, net	1,217	143
Interest income	27	71
Finance costs	(1,587)	(1,565)
Share of results of associates and jointly controlled companies	(82)	32
Restructuring costs recognized	(3)	–
Profit before income tax	3,080	2,318

The following table sets out information about the geographical location of the Group's revenue from external customers. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

In HK\$ million	Revenue from external customers	
	2010	2011
Hong Kong (place of domicile)	19,308	20,776
Mainland China (excluding Hong Kong) and Taiwan	1,783	2,013
Others	1,871	1,849
	22,962	24,638

The total non-current assets other than financial instruments and deferred income tax assets located in Hong Kong is HK\$19,403 million (2010: HK\$19,208 million), and the total of these non-current assets located in other countries is HK\$10,506 million (2010: HK\$9,666 million).

8 OTHER GAINS, NET

In HK\$ million	The Group	
	2010	2011
Net realized gains on disposal of available-for-sale financial assets	10	–
Realized gains from investment in available-for-sale financial assets	21	–
Net realized gains on disposal of an associate	1	–
Provision for impairment of investments	(21)	–
Fair value gains on investment properties	1,155	25
Recovery of impairment loss on an interest in the JV (note 5(c))	–	104
Impairment loss on an interest in a jointly controlled company	–	(16)
Net gains on cash flow hedging instruments transferred from equity	41	39
Others	10	(9)
	1,217	143

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 2010	2011
Retirement costs for directors	3	2
Retirement costs for other staff		
– pension income for defined benefit retirement schemes (<i>note 31(a)(v)</i>)	(1)	(1)
– contributions to defined contribution retirement scheme	223	243
	225	244
Salaries, bonuses and other benefits	2,365	2,375
	2,590	2,619

b. Other items

In HK\$ million	The Group 2010	2011
Crediting:		
Gain on disposal of property, plant and equipment	–	1
Gross rental income	230	278
Less: Outgoings	(24)	(20)
Charging:		
Impairment loss for doubtful debts	119	169
Provision for inventory obsolescence	9	10
Depreciation of property, plant and equipment	2,678	2,549
Operating costs of property, plant and equipment, net	100	454
Amortization of land lease premium		
– interests in leasehold land	23	22
Amortization of intangible assets	1,099	1,378
Cost of inventories sold	2,056	2,272
Cost of properties sold	640	1,219
Cost of sales, excluding inventories and properties sold	7,837	7,906
Loss on disposal of property, plant and equipment	45	–
Exchange losses, net	48	13
Less: Cash flow hedges: transferred from equity	(54)	(11)
Auditors' remuneration	22	23
Operating lease rental		
– equipment	25	21
– other assets (including property rentals)	509	601

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(Amount expressed in Hong Kong dollars unless otherwise stated)

10 FINANCE COSTS

In HK\$ million	The Group	
	2010	2011
Interest paid/payable for:		
Overdrafts and bank borrowings wholly repayable within 5 years	468	478
Bank borrowings not wholly repayable within 5 years	52	–
Other borrowings wholly repayable within 5 years	990	1,026
Other borrowings not wholly repayable within 5 years	39	–
Notional accretion on carrier licence fee liabilities	73	80
Other borrowing costs	5	7
Cash flow hedges: transferred from equity	1	1
Fair value losses/(gains) on derivative financial instruments on fair value hedges	88	(198)
Fair value adjustment of borrowings attributable to interest rate risk	(80)	202
	1,636	1,596
Interest capitalized in property, plant and equipment	(49)	(31)
	1,587	1,565

The capitalization rate used to determine the amount of interest eligible for capitalization for the year ranged from 4.43% to 6.22% (2010: 6.33% to 7.03%).

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 2010									
	Directors' fees		Salaries, allowances and benefits in kind		Bonuses ¹		Retirement scheme contributions		Total	
	PCCW		PCCW		PCCW		PCCW		PCCW	
	(excluding PCPD)	PCPD	(excluding PCPD)	PCPD	(excluding PCPD)	PCPD	(excluding PCPD)	PCPD	(excluding PCPD)	PCPD
Executive directors										
Li Tzar Kai, Richard	-	-	-	-	-	-	-	-	-	-
Alexander Anthony Arena	-	-	18.75 ²	-	12.45	-	1.41	-	32.61	-
Peter Anthony Allen	-	-	2.40 ²	-	-	-	-	-	2.40	-
Lee Chi Hong, Robert	-	-	-	6.50 ³	-	-	-	0.87	-	7.37
Hui Hon Hing, Susanna ⁴	-	-	2.88	0.93	-	-	0.23	0.01	3.11	0.94
Non-executive directors										
Sir David Ford	-	-	2.35	-	-	-	0.01	-	2.36	-
Lu Yimin	0.20 ⁵	-	-	-	-	-	-	-	0.20	-
Zuo Xunsheng	0.20 ⁶	-	-	-	-	-	-	-	0.20	-
Li Fushen	0.20 ⁷	-	-	-	-	-	-	-	0.20	-
Chung Cho Yee, Mico ⁸	0.02	-	2.11	-	-	-	-	-	2.13	-
Independent non-executive directors										
Professor Chang Hsin Kang	0.20	-	-	-	-	-	-	-	0.20	-
Dr The Hon Sir David Li Kwok Po	0.20	-	-	-	-	-	-	-	0.20	-
Sir Rogerio (Roger) Hyndman Lobo	0.20	-	-	-	-	-	-	-	0.20	-
Aman Mehta	0.40 ⁹	-	0.66	-	-	-	-	-	1.06	-
The Hon Raymond George Hardenbergh Seitz	0.30 ¹⁰	-	0.66	-	-	-	-	-	0.96	-
Tse Sze Wing, Edmund ¹¹	0.20	-	-	-	-	-	-	-	0.20	-
	2.12	-	29.81	7.43	12.45	-	1.65	0.88	46.03	8.31

Notes:

- Bonuses in respect of 2009, paid in 2010.
- Excludes remuneration for duties performed for related companies.
- Mr Robert Lee offered to waive the basic salary and housing benefits of HK\$1.83 million (2009: HK\$3.67 million).
- Appointed as an executive director with effect from May 19, 2010.
- Fee receivable as a non-executive director in 2010 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Lu Yimin and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
- Fee receivable as a non-executive director in 2010 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Zuo Xunsheng and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
- Fee receivable as a non-executive director in 2010 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Li Fushen and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
- Re-designated from an executive director to a non-executive director with effect from May 19, 2010.
- Includes HK\$100,000 fee as Chairman of Nomination Committee and HK\$100,000 fee as Chairman of Audit Committee.
- Includes HK\$100,000 fee as Chairman of Remuneration Committee.
- Re-designated from an independent non-executive director to a non-executive director with effect from March 22, 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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11 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (CONTINUED)

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

	In HK\$ million		The Group 2011							
	Directors' fees		Salaries, allowances and benefits in kind		Bonuses ¹		Retirement scheme contributions		Total	
	(excluding PCPD)	PCPD	(excluding PCPD)	PCPD	(excluding PCPD)	PCPD	(excluding PCPD)	PCPD	(excluding PCPD)	PCPD
Executive directors										
Li Tzar Kai, Richard	-	-	-	-	-	-	-	-	-	-
Alexander Anthony Arena ²	-	-	17.08 ³	-	14.26	-	1.28	-	32.62	-
Peter Anthony Allen ²	-	-	2.19 ³	-	-	-	-	-	2.19	-
Lee Chi Hong, Robert	-	-	-	7.80	-	16.66	-	0.82	-	25.28
Hui Hon Hing, Susanna	-	-	4.58 ³	1.37	6.18	-	0.35	0.01	11.11	1.38
Chan Ching Cheong, George ⁴	-	-	0.96	-	-	-	-	-	0.96	-
Non-executive directors										
Sir David Ford	-	-	2.16	-	-	-	-	-	2.16	-
Lu Yimin	0.21 ⁵	-	-	-	-	-	-	-	0.21	-
Zuo Xunsheng ⁶	0.19 ⁷	-	-	-	-	-	-	-	0.19	-
Li Fushen	0.21 ⁸	-	-	-	-	-	-	-	0.21	-
Li Gang ⁹	0.02 ¹⁰	-	-	-	-	-	-	-	0.02	-
Chung Cho Yee, Mico ⁶	0.19	-	-	-	-	-	-	-	0.19	-
Tse Sze Wing, Edmund	0.21	-	-	-	-	-	-	-	0.21	-
Independent non-executive directors										
Professor Chang Hsin Kang ¹¹	0.19	-	-	-	-	-	-	-	0.19	-
Dr The Hon Sir David Li Kwok Po	0.21	-	-	-	-	-	-	-	0.21	-
Sir Rogerio (Roger) Hyndman Lobo ¹¹	0.19	-	-	-	-	-	-	-	0.19	-
Aman Mehta	0.43 ¹²	-	0.79	-	-	-	-	-	1.22	-
The Hon Raymond George Hardenbergh Seitz ¹¹	0.29 ¹³	-	0.66	-	-	-	-	-	0.95	-
Wei Zhe, David ¹⁴	0.02	-	-	-	-	-	-	-	0.02	-
	2.36	-	28.42	9.17	20.44	16.66	1.63	0.83	52.85	26.66

Notes:

- Bonuses in respect of 2010 and 2011, paid in 2011.
- Resigned as an executive director with effect from November 29, 2011.
- Excludes remuneration for duties performed for related companies.
- Appointed as an executive director with effect from November 29, 2011.
- Fee receivable as a non-executive director in 2011 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Lu Yimin and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
- Resigned as a non-executive director with effect from November 29, 2011.
- Fee receivable as a non-executive director in 2011 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Zuo Xunsheng and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
- Fee receivable as a non-executive director in 2011 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Li Fushen and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
- Appointed as a non-executive director with effect from November 29, 2011.
- Fee receivable as a non-executive director in 2011 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Li Gang and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
- Resigned as an independent non-executive director with effect from November 29, 2011.
- Includes HK\$105,000 fee as Chairman of Nomination Committee, HK\$105,000 fee as Chairman of Audit Committee and HK\$9,493 as Chairman of Remuneration Committee.
- Includes HK\$95,938 fee as Chairman of Remuneration Committee.
- Appointed as an independent non-executive director with effect from November 29, 2011.

11 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (CONTINUED)

b. Individuals with highest emoluments

- i. Of the five individuals with the highest emoluments, three (2010: three, including the individual who was appointed as a director on May 19, 2010) are directors of the Company whose emoluments are disclosed in note 11(a).

The emoluments in respect of the two non-director individuals in 2011 and the emoluments of the two non-director individuals and the individual who was appointed as a director on May 19, 2010 whose emoluments as a non-director for the period from January 1, 2010 to May 18, 2010 in 2010 were as follows:

In HK\$ million	The Group 2010	2011
Salaries, allowances and benefits in kind	5.51	6.61
Bonuses	16.86	6.24
Retirement scheme contributions	0.44	0.53
	22.81	13.38

- ii. The emoluments of the two non-director individuals in 2011 and the emoluments of the two non-director individuals and the individual who was appointed as a director on May 19, 2010 whose emoluments as a non-director for the period from January 1, 2010 to May 18, 2010 in 2010, are within the following emolument ranges:

	The Group Number of individuals 2010	2011
HK\$5,000,001 – HK\$5,500,000	1	–
HK\$6,500,001 – HK\$7,000,000	–	2
HK\$8,000,001 – HK\$8,500,000	1	–
HK\$9,000,001 – HK\$9,500,000	1	–
	3	2

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12 INCOME TAX

a. Income tax in the consolidated income statement represents:

In HK\$ million	The Group 2010	2011
Hong Kong profits tax		
– provision for current year	101	488
– over provision in respect of prior years	(169)	(18)
Overseas tax		
– provision for current year	49	58
– over provision in respect of prior years	(35)	–
Movement of deferred income tax (<i>note 34(a)</i>)	810	14
	756	542

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits for the year.

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

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

In HK\$ million	The Group 2010	2011
Profit before income tax	3,080	2,318
Notional tax on profit before income tax, calculated at applicable tax rate	508	382
Effect of different tax rates of subsidiaries operating overseas	115	19
Income not subject to tax	(7)	(35)
Expenses not deductible for tax purposes	166	163
Tax losses not recognized	139	126
Over provision in prior years, net	(204)	(18)
Utilization of previously unrecognized tax losses	(24)	(74)
Recognition of previously unrecognized tax losses	–	(74)
Loss not deductible/(income not subject to tax) for associates and jointly controlled companies	14	(5)
Current tax provision of overseas operations	49	58
Income tax expense	756	542

13 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Profit of HK\$169 million (2010: HK\$1,949 million) attributable to equity holders of the Company was dealt with in the financial statements of the Company.

14 DIVIDENDS

In HK\$ million	2010	2011
Interim dividend declared and paid in respect of current year of 5.3 HK cents (2010: 5.1 HK cents) per ordinary share	370	385
Final dividend declared in respect of previous financial year, approved and paid during the year of 10.2 HK cents (2010: 13.3 HK cents) per ordinary share	901	742
Special dividend in specie (2010: nil)	–	1,443
	1,271	2,570
Final dividend proposed after the balance sheet date of 10.6 HK cents (2010: 10.2 HK cents) per ordinary share	742	771

During the year ended December 31, 2011, PCCW declared a conditional special dividend to be satisfied by way of two distributions in specie of Share Stapled Units representing an aggregate of approximately 5% of the Share Stapled Units in issue immediately following the completion of the HKT Trust Global Offering (“Distributions in Specie”). The Distributions in Specie became unconditional upon the listing of Share Stapled Units on the Main Board of the Stock Exchange on November 29, 2011. Accordingly, the estimated dividend payable of approximately HK\$1,443 million was recorded, which is measured at the fair value of approximately 5% of the Share Stapled Units to be distributed on the date when the Distributions in Specie became unconditional.

The first distribution in specie represents a distribution of 158,080,457 Share Stapled Units on the basis of 1 Share Stapled Unit for every integral multiple of 46 ordinary shares of the Company, and will be transferred to eligible shareholders on or around March 2, 2012.

The second distribution in specie represents a distribution of approximately 2.5% of the Share Stapled Units in issue immediately following the completion of the HKT Trust Global Offering, and will be transferred to eligible shareholders, in proportion to their shareholdings in the Company as at March 20, 2012, on or before May 22, 2012.

The final dividend proposed after the balance sheet date for 2011 has not been recognized as a liability as at the balance sheet date.

15 EARNINGS PER SHARE

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

	2010	2011
Earnings (in HK\$ million)		
Earnings for the purpose of basic and diluted earnings per share	1,926	1,607
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	6,940,787,805	7,272,294,654

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16 PROPERTY, PLANT AND EQUIPMENT

In HK\$ million	The Group 2010					Total
	Land and buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	
Cost						
Beginning of year	1,263	12,548	14,256	10,745	1,009	39,821
Additions	10	538	426	353	520	1,847
Additions through acquisition of subsidiaries	–	–	–	1	–	1
Transfers	–	585	105	117	(966)	(159)
Disposals	(2)	(660)	(386)	(152)	–	(1,200)
Exchange differences	9	121	99	13	–	242
End of year	1,280	13,132	14,500	11,077	563	40,552
Accumulated depreciation and impairment						
Beginning of year	268	8,841	6,769	7,636	7	23,521
Charge for the year	47	1,014	863	754	–	2,678
Transfers	–	(51)	–	–	–	(51)
Disposals	(1)	(623)	(380)	(145)	–	(1,149)
Exchange differences	2	27	67	5	–	101
End of year	316	9,208	7,319	8,250	7	25,100
Net book value						
End of year	964	3,924	7,181	2,827	556	15,452
Beginning of year	995	3,707	7,487	3,109	1,002	16,300

16 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

In HK\$ million	The Group					Total
	2011					
	Land and buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	
Cost						
Beginning of year	1,280	13,132	14,500	11,077	563	40,552
Additions	52	284	340	519	796	1,991
Acquisition from the JV	–	–	629	–	–	629
Transfers	–	116	153	148	(662)	(245)
Disposals	–	(1,456)	(267)	(588)	–	(2,311)
Exchange differences	6	1	(20)	14	–	1
End of year	1,338	12,077	15,335	11,170	697	40,617
Accumulated depreciation and impairment						
Beginning of year	316	9,208	7,319	8,250	7	25,100
Charge for the year	45	966	816	722	–	2,549
Transfers	–	(208)	–	–	–	(208)
Disposals	–	(1,450)	(258)	(581)	–	(2,289)
Exchange differences	1	(2)	(14)	3	–	(12)
End of year	362	8,514	7,863	8,394	7	25,140
Net book value						
End of year	976	3,563	7,472	2,776	690	15,477
Beginning of year	964	3,924	7,181	2,827	556	15,452

Certain property, plant and equipment with an aggregate carrying value of approximately HK\$67 million (2010: HK\$72 million) were pledged as security for certain bank borrowings of the Group as at December 31, 2011. Please refer to note 41 for details of the Group's bank loan facilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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(Amount expressed in Hong Kong dollars unless otherwise stated)

16 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

In HK\$ million	The Group 2010	2011
Held in Hong Kong		
On long-term lease (over 50 years)	102	98
On medium-term lease (10–50 years)	756	719
Held outside Hong Kong		
Freehold	68	122
Leasehold		
On long-term lease (over 50 years)	1	–
On medium-term lease (10–50 years)	37	37
	964	976

In HK\$ million	The Company 2010 Other plant and equipment

Cost	
Beginning and end of year	2
Accumulated depreciation and impairment	
Beginning and end of year	2
Net book value	
Beginning and end of year	–

In HK\$ million	The Company 2011 Other plant and equipment
Cost	
Beginning of year	2
Disposals	(2)
End of year	–
Accumulated depreciation and impairment	
Beginning of year	2
Disposals	(2)
End of year	–
Net book value	
Beginning and end of year	–

17 INVESTMENT PROPERTIES

In HK\$ million	The Group 2010	2011
Beginning of year	3,794	5,085
Additions	–	35
Exchange differences	136	239
Fair value gains	1,155	25
End of year	5,085	5,384

The majority of the investment properties are held outside Hong Kong and they were revalued as at December 31, 2011 by an independent valuer, who is a fellow of the Royal Institution of Chartered Surveyors, on a market value basis.

In the consolidated income statement, cost of sales includes HK\$20 million (2010: HK\$24 million) direct operating expenses relating to investment properties that generate rental income and HK\$5 million (2010: HK\$11 million) direct operating expenses relating to investment properties that were unlet.

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

In HK\$ million	The Group 2010	2011
Held in Hong Kong		
On medium-term lease (10–50 years)	12	12
Held outside Hong Kong		
On long-term lease (over 50 years)	913	913
On medium-term lease (10–50 years)	4,160	4,459
	5,085	5,384

The Group leases out properties under operating leases. The majority of the leases typically run for a period of 1 to 15 years. None of the leases include contingent rentals.

As at December 31, 2011, the total future minimum lease receipts in respect of investment properties under non-cancellable operating leases are receivables as follows:

In HK\$ million	The Group 2010	2011
Within 1 year	236	195
After 1 year but within 5 years	361	334
After 5 years	103	97
	700	626

Investment properties with a carrying value of approximately HK\$5,370 million (2010: HK\$5,074 million) were pledged as security for certain bank borrowings of the Group as at December 31, 2011. Please refer to note 41 for details of the Group's bank loan facilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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(Amount expressed in Hong Kong dollars unless otherwise stated)

18 INTERESTS IN LEASEHOLD LAND

In HK\$ million	The Group 2010	2011
Cost		
Beginning and end of year	823	823
Accumulated amortization		
Beginning of year	248	271
Charge for the year	23	22
End of year	271	293
Net book value		
End of year	552	530
Beginning of year	575	552

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

In HK\$ million	The Group 2010	2011
Held in Hong Kong		
On long-term lease (over 50 years)	87	84
On medium-term lease (10–50 years)	455	436
Held outside Hong Kong		
On medium-term lease (10–50 years)	10	10
	552	530

As at December 31, 2011, there was no leasehold land included in properties under development (2010: nil).

19 PROPERTIES HELD FOR/UNDER DEVELOPMENT/FOR SALE

In HK\$ million	The Group	
	2010	2011
Properties under development	428	487
Properties held for development (<i>note b</i>)	624	618
	1,052	1,105
Less: Properties held for/under development classified as non-current assets	(1,052)	(1,105)
Properties under development classified as current assets	–	–
Properties for sale classified as current assets (<i>note a</i>)	772	455
	772	455

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. The construction of residential portion of the Cyberport project was completed in November 2008.

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

20 GOODWILL

In HK\$ million	The Group	
	2010	2011
Cost		
Beginning of year	3,262	3,336
Acquisition of subsidiaries	55	–
Addition upon finalization of contingent consideration	12	–
Exchange differences	7	–
End of year	3,336	3,336
Accumulated impairment		
Beginning and end of year	166	166
Carrying amount		
End of year	3,170	3,170
Beginning of year	3,096	3,170

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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(Amount expressed in Hong Kong dollars unless otherwise stated)

20 GOODWILL (CONTINUED)

Impairment tests for CGUs containing goodwill

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

In HK\$ million	The Group 2010	2011
TSS		
PCCW Global	585	585
IP BPO Holdings Pte. Ltd. and its subsidiaries	204	204
	789	789
Mobile	1,939	1,939
Media Business	162	162
Solutions Business	126	126
PCPD	91	91
Others		
UK Broadband Limited and its subsidiaries	59	59
Others	4	4
	63	63
Total	3,170	3,170

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 terminal 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:

	Gross margin	2011 Terminal growth rate	Discount rate
PCCW Global	22%	3%	11%
IP BPO Holdings Pte. Ltd. and its subsidiaries	36%	2%	10%
Mobile	75%	2%	15%
Media Business	51%	2%	15%
Solutions Business	28%	2%	11%

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

There was no indication of impairment arising from the review on goodwill as at October 31, 2011.

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 2010						Total
	Trademarks	Content licence	Wireless broadband licences	Carrier licences	Customer acquisition costs	Others	
Cost							
Beginning of year	1,518	375	180	207	1,503	12	3,795
Additions through acquisition of subsidiaries	–	–	–	–	–	2	2
Additions	–	–	153	545	1,058	1	1,757
Write-off	–	–	–	–	(941)	–	(941)
Exchange differences	–	–	(6)	–	2	–	(4)
End of year	1,518	375	327	752	1,622	15	4,609
Accumulated amortization and impairment							
Beginning of year	711	375	115	54	804	8	2,067
Charge for the year (note a)	76	–	20	43	958	2	1,099
Write-off	–	–	–	–	(941)	–	(941)
Exchange differences	–	–	(4)	–	–	–	(4)
End of year	787	375	131	97	821	10	2,221
Net book value							
End of year	731	–	196	655	801	5	2,388
Beginning of year	807	–	65	153	699	4	1,728

In HK\$ million	The Group 2011						Total
	Trademarks	Content licence and capitalized programme costs	Wireless broadband licences	Carrier licences	Customer acquisition costs	Others	
Cost							
Beginning of year	1,518	375	327	752	1,622	15	4,609
Additions	–	50	–	38	1,674	22	1,784
Acquisition from the JV	–	–	–	–	15	–	15
Write-off	–	–	–	–	(692)	(1)	(693)
Exchange differences	–	–	2	–	1	–	3
End of year	1,518	425	329	790	2,620	36	5,718
Accumulated amortization and impairment							
Beginning of year	787	375	131	97	821	10	2,221
Charge for the year (note a)	76	16	27	68	1,188	3	1,378
Write-off	–	–	–	–	(692)	(1)	(693)
End of year	863	391	158	165	1,317	12	2,906
Net book value							
End of year	655	34	171	625	1,303	24	2,812
Beginning of year	731	–	196	655	801	5	2,388

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

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(Amount expressed in Hong Kong dollars unless otherwise stated)

22 INVESTMENTS IN SUBSIDIARIES

In HK\$ million	The Company 2010	2011
Unlisted shares, at cost	130,780	130,780
Capital contribution in respect of employee share-based compensation	283	283
	131,063	131,063
Less: Provision for impairment in value	(118,974)	(118,974)
	12,089	12,089

The provision for impairment in value of HK\$118,974 million (2010: HK\$118,974 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 subsidiaries are as follows:

a. Amounts due from subsidiaries

In HK\$ million	The Company 2010	2011
Amounts due from subsidiaries	60,102	59,263
Less: Provision for impairment	(41,840)	(41,840)
	18,262	17,423

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

As at December 31, 2011, 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\$110 million (2010: US\$111 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, 2011, 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	Indirectly
HKT Limited	Cayman Islands/ Hong Kong	Investment holding	HK\$3,208,365.39 ordinary shares and HK\$3,208,365.39 preference shares	–	68%
HKT Group Holdings Limited ("HKTGH")	Cayman Islands	Investment holding	US\$636,000,002	–	68%
Hong Kong Telecommunications (HKT) Limited ("HKTL")	Hong Kong	Provision of telecommunications services	HK\$2,488,200,001	–	68%
HKT Services Limited	Hong Kong	Provision of management services to group companies	HK\$1	–	68%
Esencia Investments Limited	British Virgin Islands	Investment holding	US\$1	–	100%
Great Epoch Holdings Limited	British Virgin Islands	Investment holding	US\$1	–	100%
PCCW-HKT Technical Services Limited	Hong Kong	Provision of technical support services, electronics and communications engineering, products and solutions	HK\$700,002	–	100%
PCCW Mobile HK Limited	Hong Kong	Provision of mobile services to its customers, which is procured from HKTL and the sale of mobile phones and accessories	HK\$100 ordinary shares and HK\$1,254,000,000 non-voting deferred shares	–	68%
PCCW Media Limited	Hong Kong	Provision of pay television programme services, interactive multimedia services, the sale of advertising in various telephone directories, the publishing of those directories in Hong Kong and the sale of advertising on the Internet	HK\$3,500,000,097 ordinary shares, HK\$1 "A" Class share and HK\$4 "B" Class shares	–	100%
PC Music Holdings Limited	British Virgin Islands	Investment holding	US\$11	–	100%
PCCW Productions Limited	Hong Kong	Production of content for different media	HK\$2	–	100%
PCCW Teleservices (Hong Kong) Limited	Hong Kong	Provision of customer relationship management and customer contact management solutions and services	HK\$12	–	68%
PCCW Teleservices Operations (Hong Kong) Limited	Hong Kong	Provision of customer relationship management and customer contact management solutions and services	HK\$2	–	68%
廣州電盈綜合客戶服務技術 發展有限公司 ² (PCCW Customer Management Technology and Services (Guangzhou) Limited ³)	The PRC	Customer service and consultancy	HK\$53,803,000	–	68%
PCCW (Macau), Limitada	Macau	Selling customer premises equipment and related solutions, conducting systems integration projects and providing outsourced call center services	MOP2,000,000	–	51%
PCCW Teleservices (US), Inc.	Nebraska, U.S.A.	Telemarketing and direct marketing services	US\$1,169	–	57.8%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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(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	Indirectly
PCCW Global (HK) Limited	Hong Kong	Provision of satellite-based and network-based telecommunications services	HK\$10	–	68%
PCCW Global Limited	Hong Kong/ Dubai Technology and Media Free Zone	Provision of network-based telecommunications services	HK\$2	–	68%
PCCW Global, Inc.	Delaware, U.S.A.	Supply of broadband internet access solutions and web services	US\$18.01	–	68%
PCCW Global (Singapore) Pte. Ltd.	Singapore	Telecommunication solutions related services	S\$172,124,441.71	–	68%
HKT Global (Singapore) Pte. Ltd.	Singapore	Provision of telecommunications solutions related services	S\$60,956,485.64	–	68%
PCCW Global (UK) Limited	United Kingdom	Provision of network-based telecommunications services to customers, and the provision of sales and marketing services to related companies	GBP1	–	68%
電訊盈科(北京)有限公司 (PCCW (Beijing) Limited ³)	The PRC	Systems integration, consulting and informatization project	US\$10,250,000	–	100%
Unihub China Information Technology Company Limited ¹	The PRC	Selling of hardware and software and information system consulting services	RMB200,000,000	–	26%
PCCW Solutions Limited	Hong Kong	Provision of computer services and 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 ² (PCCW Solutions (Guangzhou) Limited ³)	The PRC	Systems integration and technology consultancy	HK\$12,600,000	–	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	Provision of data center services	HK\$2	–	100%
Power Logistics Limited	Hong Kong	Logistics, printing, business process and ICT solutions	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. ²	The PRC	Property development	US\$100,000,000	–	61.53%
Talent Master Investments Limited	British Virgin Islands/ Hong Kong	Property development	US\$1	–	61.53%
Nihon Harmony Resorts KK	Japan	Ski operation	JPY405,000,000	–	61.53%
UK Broadband Limited	United Kingdom	Public fixed wireless access licence businesses	GBP1	–	100%
UKB Solutions Limited (formerly known as 802 Limited)	United Kingdom	Public fixed wireless access licence businesses	GBP100,000	–	100%

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

Notes:

- 1 Represents a sino-foreign equity joint venture.
- 2 Represents a wholly foreign owned enterprise.
- 3 Unofficial Company name.

23 INTERESTS IN ASSOCIATES

In HK\$ million	The Group 2010	2011
Share of net assets of associates	292	389
Loans due from associates	78	149
Amount due from an associate	34	35
	404	573
Provision for impairment	(171)	(171)
	233	402
Investments at cost, unlisted shares	551	635

Other than two loans with fixed terms of repayment to an associate of approximately HK\$43 million (2010: nil) repayable in 1 to 2 years bears interest at a fixed rate of 5.0% per annum and HK\$28 million (2010: nil) repayable in 1 year bears interest at a fixed rate of 6.5% per annum, balances with associates are non-interest bearing and have no fixed terms of repayment. All of the balances due from associates are unsecured.

As at December 31, 2011, particulars of the principal associates 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
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 (Petro-CyberWorks Information Technology Company Limited*)	The PRC	Design and development of Enterprise Resource Planning systems, and customer relationship management systems	RMB50,000,000	–	45%
東莞捷通達電訊有限公司 (Dongguan Jietongda Telecommunications Company Limited*)	The PRC	Provision of support service for mobile service subscription, sales of mobile phones and accessories	RMB40,000,000	–	23.8%

* Unofficial company name

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

In HK\$ million	2010	2011
Total assets	1,182	2,057
Total liabilities	(651)	(1,342)
Turnover	1,280	1,906
Profit after income tax	107	95

During the year ended December 31, 2011, the Group did not have any unrecognized share of losses of associates (2010: nil). As at December 31, 2011, the accumulated share of losses of the associates unrecognized by the Group was nil (2010: nil).

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(Amount expressed in Hong Kong dollars unless otherwise stated)

24 INTERESTS IN JOINTLY CONTROLLED COMPANIES

In HK\$ million	The Group 2010	2011
Share of net assets of jointly controlled companies	3,055	3,068
Loans due from jointly controlled companies	268	309
Amounts due from jointly controlled companies	23	23
	3,346	3,400
Provision for impairment	(2,869)	(2,885)
	477	515
Investments at cost, unlisted shares	3,637	3,653

Balances with jointly controlled companies are unsecured and non-interest bearing, and have no fixed terms of repayment except that the loan due from a jointly controlled company of HK\$301 million (2010: HK\$260 million) bears interests at HIBOR plus 3% per annum.

As at December 31, 2011, 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	–	34%
China Netcom Broadband Corporation Limited	The PRC	Internet access services business, information services business and resale of broadband resources, etc.	RMB644,518,697	–	34%
Genius Brand Limited	Hong Kong	Provision of mobile telecommunications services in Hong Kong	HK\$10,000	–	34%

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

In HK\$ million	2010	2011
Non-current assets	1,366	1,101
Current assets	518	402
Total assets	1,884	1,503
Non-current liabilities	(1,673)	(1,032)
Current liabilities	(723)	(748)
Net liabilities	(512)	(277)
Non-controlling interests	(226)	(147)
Equity attributable to equity holders of the company	(738)	(424)
Turnover	2,030	1,002
Expenses	(2,147)	(661)
(Loss)/profit before income tax	(117)	341
Income tax	(4)	(6)
(Loss)/profit after income tax	(121)	335
Non-controlling interests	(11)	(14)
(Loss)/profit for the year attributable to equity holders of the company	(132)	321

25 AVAILABLE-FOR-SALE FINANCIAL ASSETS

In HK\$ million	The Group 2010	2011
Beginning of year	325	281
Additions	28	229
Return of investment	(64)	–
Disposals	(14)	(31)
Net gains transferred to equity	27	96
Impairment loss recognized	(21)	–
End of year	281	575

In HK\$ million	The Group 2010	2011
Listed equity securities – overseas	56	78
Unlisted equity securities	225	497
	281	575
Market value of listed equity securities	56	78

As at December 31, 2011, the Group's equity securities were individually reviewed for impairment by management. Consequently, there was no provision for impairment (2010: impairment loss of HK\$21 million) recognized in the consolidated income statement for the year ended December 31, 2011. 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\$31 million were sold at their carrying value and there was no transfer from equity on disposal and no realized gain was recognized.

During the year ended December 31, 2010, available-for-sale financial assets with a carrying value of approximately HK\$14 million were sold and there was a transfer from equity on disposal of HK\$10 million. As a result, a realized gain of approximately HK\$10 million was recognized and included in "Other gains, 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, 2011 (2010: nil).

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

The balance of the Group mainly represented a restricted cash balance of approximately HK\$696 million as at December 31, 2011 (2010: HK\$2,245 million) held in specific bank accounts, the uses of which are specified in the Cyberport Project Agreement.

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26 CURRENT ASSETS AND LIABILITIES (CONTINUED)

c. Prepayments, deposits and other current assets

Included in prepayments, deposits and other current assets of the Group were prepaid programme costs of approximately HK\$319 million as at December 31, 2011 (2010: HK\$122 million).

d. Inventories

In HK\$ million	The Group 2010	2011
Work-in-progress	704	594
Finished goods	163	429
Consumable inventories	90	143
	957	1,166

e. Trade receivables, net

In HK\$ million	The Group 2010	2011
Trade receivables (note i)	2,735	3,256
Less: Impairment loss for doubtful debts (note ii)	(206)	(172)
Trade receivables, net	2,529	3,084

i. Aging of trade receivables

In HK\$ million	The Group 2010	2011
0 – 30 days	1,464	1,678
31 – 60 days	308	497
61 – 90 days	185	212
91 – 120 days	96	132
Over 120 days	682	737
	2,735	3,256

26 CURRENT ASSETS AND LIABILITIES (CONTINUED)

e. Trade receivables, net (continued)

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 2010	2011
Beginning of year	302	206
Impairment loss recognized	119	169
Uncollectible amounts written off	(215)	(203)
End of year	206	172

As at December 31, 2011, the Group's trade receivables of HK\$115 million (2010: HK\$154 million) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific provision for doubtful debts of HK\$115 million (2010: HK\$154 million) was recognized. The Group does not hold any collateral over these balances.

iii. Trade receivables that are not impaired

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

In HK\$ million	The Group 2010	2011
Neither past due nor impaired	1,278	1,609
0 – 30 days past due	417	466
31 – 60 days past due	164	238
61 – 90 days past due	129	127
Over 90 days past due	541	644
Past due but not impaired	1,251	1,475
	2,529	3,084

Trade receivables that were neither past due nor impaired relate 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.

Certain trade receivables with an aggregate carrying value of approximately HK\$37 million (2010: HK\$44 million) were pledged as security for certain bank borrowings of the Group as at December 31, 2011. Please refer to note 41 for details of the Group's bank loan facilities.

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(Amount expressed in Hong Kong dollars unless otherwise stated)

26 CURRENT ASSETS AND LIABILITIES (CONTINUED)

f. Short-term borrowings

In HK\$ million	The Group 2010	2011
US\$1,000 million 7.75% guaranteed notes due 2011 (<i>note i</i>)	7,772	–
Bank borrowings (<i>note ii</i>)	28	40
	7,800	40
Secured (<i>note ii</i>)	28	40
Unsecured	7,772	–

i. US\$1,000 million 7.75% guaranteed notes due 2011

In November 2001, PCCW-HKT Capital Limited, an indirect non-wholly owned subsidiary of the Group, issued US\$1,000 million 7.75% guaranteed notes due November 2011 (the “Notes due 2011”) (interest rate subsequently adjusted to 8% pursuant to an interest step-up provision).

The Notes due 2011 were unconditionally and irrevocably guaranteed by PCCW-HKT Telephone Limited (“HKTC”), HKTGH and HKTL and ranked *pari passu* with all other outstanding unsecured and unsubordinated obligations of HKTC, HKTGH and HKTL.

The Notes due 2011 were fully redeemed in November 2011 and were delisted from the Luxembourg Stock Exchange.

ii. Bank borrowings

On September 22, 2009, a non-wholly owned subsidiary of the Company entered into a term loan facility up to an aggregate amount of RMB10 million (the “RMB Facility”). As at December 31, 2011, RMB7.5 million (2010: RMB10 million) of the RMB Facility was utilized and was secured by the assets owned by the non-wholly owned subsidiary.

On September 22, 2009, a non-wholly owned subsidiary of the Company was granted a three-year revolving loan facility up to an aggregate amount of HK\$2,800 million (the “HKD Facility”). Such facility is secured by the shares and assets of certain non-wholly owned subsidiaries. The Group has not utilized the HKD Facility as at December 31, 2011 (2010: same).

On January 31, 2011, a non-wholly owned subsidiary of the Company entered into a term loan facility and a revolving loan facility up to an aggregate amount of US\$7.5 million (the “USD Facility”). As at December 31, 2011, short-term borrowings of US\$3.9 million (approximately HK\$31 million) and long-term borrowings of US\$0.2 million (approximately HK\$2 million) of the USD Facility was utilized and was secured by the assets owned by the non-wholly owned subsidiary. As at December 31, 2010, short-term borrowings of US\$3.6 million (approximately HK\$28 million) of the USD Facility was utilized and was secured by the assets owned by the non-wholly owned subsidiary.

Please refer to note 41 for details of the Group’s bank loan facilities.

g. Trade payables

The aging of trade payables is set out below:

In HK\$ million	The Group 2010	2011
0 – 30 days	901	791
31 – 60 days	184	111
61 – 90 days	30	55
91 – 120 days	15	38
Over 120 days	575	782
	1,705	1,777

27 LONG-TERM BORROWINGS

In HK\$ million	The Group 2010	2011
Repayable within a period		
– over one year, but not exceeding two years	12	8,123
– over two years, but not exceeding five years	18,334	15,347
– over five years	8,695	–
	27,041	23,470
Representing:		
US\$500 million 6% guaranteed notes due 2013 (<i>note a</i>)	3,879	3,881
US\$500 million 5.25% guaranteed notes due 2015 (<i>note b</i>)	3,866	3,867
US\$500 million 4.25% guaranteed notes due 2016 (<i>note c</i>)	3,773	3,979
Bank borrowings	15,523	11,743
	27,041	23,470
Secured (<i>note d</i>)	12	2
Unsecured	27,029	23,468

a. US\$500 million 6% guaranteed notes due 2013

On July 17, 2003, PCCW-HKT Capital No.2 Limited, an indirect non-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 HKTL and will rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC, HKTGH and HKTL.

b. US\$500 million 5.25% guaranteed notes due 2015

On July 20, 2005, PCCW-HKT Capital No.3 Limited, an indirect non-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 HKTL and will rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC, HKTGH and HKTL.

c. US\$500 million 4.25% guaranteed notes due 2016

On August 24, 2010, PCCW-HKT Capital No.4 Limited, an indirect non-wholly owned subsidiary of the Company, issued US\$500 million 4.25% guaranteed notes due 2016, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTGH and HKTL and will rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and HKTL.

d. Secured bank borrowings

The secured bank borrowings as at December 31, 2010 were reclassified as short-term borrowings as at December 31, 2011. Please refer to note 26(f)(ii) for more details.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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(Amount expressed in Hong Kong dollars unless otherwise stated)

28 AMOUNT PAYABLE TO THE GOVERNMENT UNDER THE CYBERPORT PROJECT AGREEMENT

In HK\$ million	The Group 2011		
	Government share under the Cyberport Project Agreement	Others	Total
Beginning of year	1,574	32	1,606
Addition to amount payable	1,100	2	1,102
Settlement during the year	(2,105)	–	(2,105)
End of year, classified as current liabilities	569	34	603

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 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	
	2010	2011
Non-current assets		
Fixed-to-fixed cross currency swap contracts – cash flow hedges (<i>note a</i>)	152	114
Fixed-to-floating cross currency swap contracts – cash flow hedges (<i>note b</i>)	–	31
Fixed-to-floating cross currency swap contracts – fair value hedges (<i>note b</i>)	–	130
	152	275
Current assets		
Fixed-to-fixed cross currency swap contracts – cash flow hedges (<i>note a</i>)	17	–
Non-current liabilities		
Fixed-to-floating cross currency swap contracts – cash flow hedges (<i>note b</i>)	(34)	–
Fixed-to-floating cross currency swap contracts – fair value hedges (<i>note b</i>)	(68)	–
	(102)	–

As at December 31, 2011, the Group had outstanding cross currency swap contracts with notional contract amounts of US\$1,500 million (approximately HK\$11,664 million) (2010: US\$2,500 million (approximately HK\$19,454 million)) at various rates, to manage the Group's exposure to foreign currency fluctuations and interest rate risk.

The full fair value of a hedging derivative is classified as non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

29 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

a. All of the fixed-to-fixed cross currency swap contracts outstanding as at December 31, 2011 with notional contract amounts of US\$1,000 million (approximately HK\$7,776 million) (2010: US\$2,000 million (approximately HK\$15,563 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 (2010: 7.7790 to 7.8014) for the notional amounts (see note 38(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 has entered into fixed-to-floating cross currency swap contracts outstanding as at December 31, 2011 with notional contract amounts of US\$500 million (approximately HK\$3,888 million) (2010: US\$500 million (approximately HK\$3,891 million)). Maturity of these swaps matches with the maturity of the underlying fixed rate borrowings and has fixed the USD/HKD exchange rate at 7.7708 to 7.7711 (2010: 7.7708 to 7.7711) for the notional amounts (see note 38(c)(i)). The swaps also pre-determined the interest rates at HIBOR +2.24% (2010: HIBOR+2.24%) (see note 38(c)(ii)).

These swap contracts were designated as (i) cash flow hedges of the foreign exchange rate risk in the Group's foreign currency denominated borrowings and (ii) fair value hedges of the interest rate risk in the Group's borrowings at fixed interest rates.

Gains and losses recognized in the hedging reserve under equity on these swap contracts designated as cash flow hedges will be continuously released to the income statement until the repayment of the borrowings.

Those swap contracts designated as fair value hedges will offset the impact of future changes in interest rates on the fair value of the underlying fixed-rate debt obligations. The swap contracts were reflected at fair value in the consolidated balance sheet and the related portion of fixed-rate debt being hedged was reflected at an amount equal to the sum of its carrying amount plus an adjustment representing the change in fair value of the debt obligations attributable to the interest rate risk being hedged. Changes in the fair value of the swap contracts and the corresponding changes in the adjusted carrying amount of the related portion of the fixed-rate debt being hedged, are recognized as adjustments in "Finance costs" in the consolidated income statement. The net effect recognized in the "Finance costs" represents the ineffective portion of the hedging relationship, amounted to approximately HK\$4 million for the current year (2010: HK\$8 million).

30 SHARE CAPITAL

	2010		2011	
	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	6,772,294,654	1,693	7,272,294,654	1,818
Issue of ordinary shares (note a)	500,000,000	125	–	–
End of year	7,272,294,654	1,818	7,272,294,654	1,818

a. The Company issued 500,000,000 ordinary shares on August 31, 2010 of HK\$0.25 at a price of HK\$2.60 per share. The proceeds from the placement of shares were approximately HK\$1,300 million (before deduction of expenses). The proceeds were used for general corporate purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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(Amount expressed in Hong Kong dollars unless otherwise stated)

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, 2011 and was prepared by Ms Wing Lui of Towers Watson Hong Kong Limited, a fellow of the Society of Actuaries of the United States of America, using the projected unit credit method. The actuary was of the opinion that the fair value of the scheme assets was sufficient to cover 89% (2010: 75%) of the present value of the defined benefit obligations as at December 31, 2011.

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

In HK\$ million	The Group 2010	2011
Present value of the defined benefit obligations (note iii)	261	324
Fair value of scheme assets (note iv)	(195)	(189)
	66	135
Unrecognized actuarial losses	(62)	(132)
Defined benefit liability in the consolidated balance sheet	4	3

No employer’s contributions are expected to be paid to the scheme in 2012.

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

	The Group 2010	2011
Equity securities	–	–
Cash or short-term fixed deposits	–	–
Other (insurance fund)	100%	100%
	100%	100%

As at December 31, 2011, the scheme assets do not include any ordinary shares issued by the Company (2010: Nil).

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

In HK\$ million	The Group 2010	2011
Beginning of year	286	261
Benefits paid	(12)	(12)
Interest cost	7	8
Actuarial (gains)/losses	(20)	67
End of year	261	324

31 EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

a. Defined benefit retirement schemes (continued)

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

In HK\$ million	The Group 2010	2011
Beginning of year	201	195
Benefits paid	(12)	(12)
Expected return on scheme assets	11	11
Actuarial losses	(5)	(5)
End of year	195	189

v. Income recognized in the consolidated income statement is as follows:

In HK\$ million	The Group 2010	2011
Interest cost	7	8
Expected return on scheme assets	(11)	(11)
Net actuarial losses recognized during the year	3	2
	(1)	(1)
Total included in General and administrative expenses – retirement costs for other staff (note 9(a))	(1)	(1)
Actual return on scheme assets	6	6

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

	The Group 2010	2011
Discount rate	3.10%	1.50%
Expected rate of return on scheme assets	5.75%	6.00%
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	2007	2008	The Group 2009	2010	2011
Present value of the defined benefit obligations	253	352	286	261	324
Fair value of scheme assets	(206)	(204)	(201)	(195)	(189)
Deficit in the scheme	47	148	85	66	135
Experience losses/(gains) on scheme liabilities	3	(1)	8	(2)	5
Experience losses on scheme assets	2	2	2	5	5

31 EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

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

	2010		2011	
	Weighted average exercise price HK\$	Number of options	Weighted average exercise price HK\$	Number of options
Beginning of year	12.45	82,837,597	6.57	67,709,617
Cancelled/Lapsed (note iii)	38.76	(15,127,980)	11.11	(20,615,379)
End of year (note ii)	6.57	67,709,617	4.58	47,094,238
Exercisable at end of year	6.57	67,709,617	4.58	47,094,238

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	
				2010	2011
January 22, 2001 to February 20, 2001	January 22, 2001 to January 22, 2005	January 22, 2001 to January 22, 2011	16.8400	10,491,559	–
February 8, 2001	February 8, 2002 to February 8, 2004	February 8, 2002 to February 8, 2011	18.7600	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	1,039,000	–
July 16, 2001 to September 15, 2001	July 16, 2002 to July 16, 2004	July 16, 2002 to July 16, 2011	9.1600	169,120	–
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	5,480,000	5,480,000
July 25, 2003	July 25, 2004 to July 25, 2006	July 25, 2004 to July 23, 2013	4.3500	50,149,538	41,320,538
September 16, 2003	September 16, 2004 to September 16, 2006	September 16, 2004 to September 14, 2013	4.9000	7,000	7,000
				67,709,617	47,094,238

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

Range of exercise prices	2010		2011	
	Weighted average remaining contractual life (years)	Number of options	Weighted average remaining contractual life (years)	Number of options
HK\$4.01 to 5.04	2.56	50,156,538	1.56	41,327,538
5.05 to 7.54	1.87	5,480,000	0.87	5,480,000
7.55 to 11.29	0.56	1,494,820	0.49	286,700
16.80 to 25.04	0.06	10,578,259	N/A	–
		67,709,617	47,094,238	

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32 EQUITY COMPENSATION BENEFITS (CONTINUED)

a. Share option schemes of the Company (continued)

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

Exercise period	Exercise price HK\$	Number of options	
		2010	2011
January 22, 2001 to January 22, 2011	16.8400	164,200	10,491,559
February 8, 2001 to February 8, 2010	75.2400	86,700	–
May 26, 2001 to August 26, 2010	60.1200	6,461,600	–
March 15, 2001 to October 27, 2010	24.3600	7,554,026	–
May 26, 2001 to April 17, 2011	10.3000	8,640	1,039,000
February 8, 2002 to February 8, 2011	18.7600	–	86,700
July 16, 2002 to July 16, 2011	9.1600	25,480	169,120
November 13, 2003 to November 12, 2012	6.1500	380,000	–
July 25, 2004 to July 23, 2013	4.3500	447,334	8,829,000
		15,127,980	20,615,379

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	
	2010	2011
Beginning and end of year	2,519,109	2,519,109

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.

32 EQUITY COMPENSATION BENEFITS (CONTINUED)

c. Share option schemes of PCPD (continued)

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, 2010 and 2011 and no share options were outstanding at December 31, 2011 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

	2010		2011	
	Weighted average exercise price HK\$	Number of options	Weighted average exercise price HK\$	Number of options
Beginning and end of year (note ii)	2.375	5,000,000	2.375	5,000,000
Exercisable at end of year	2.375	5,000,000	2.375	5,000,000

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

Date of grant	Vesting period	Exercise period	Exercise price HK\$	Number of options	
				2010	2011
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, 2011 had a weighted average remaining contractual life of 3 years (2010: 4 years).

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

32 EQUITY COMPENSATION BENEFITS (CONTINUED)

d. Equity compensation benefit of the HKT Trust and HKT

i. 2011-2021 Share Stapled Units option scheme of the HKT Trust and HKT

On November 7, 2011 (the "Adoption Date"), the HKT Trust and HKT conditionally adopted a Share Stapled Units option scheme ("HKT 2011-2021 Option Scheme") which has become effective upon listing, to enable the HKT Trust and HKT, acting jointly by mutual agreement between them, to grant options to (a) any full-time or part-time employees of HKT and/or any of its subsidiaries, (b) any director (including executive, non-executive and independent non-executive director) of HKT and/or any of its subsidiaries; and (c) any consultant or adviser (whether professional or otherwise and whether on an employment or contractual or honorary basis or otherwise and whether paid or unpaid), distributor, contractor, supplier, service provider, agent, customer and business partner of HKT and/or any of its subsidiaries ("Eligible Participants") as incentives or rewards for their contribution to the growth of HKT Group and to provide HKT Group with a more flexible means to reward, remunerate, compensate and/or provide benefits to the Eligible Participants.

No Share Stapled Units option has been granted under the HKT 2011-2021 Option Scheme since the Adoption Date. Accordingly, there were no outstanding options under the HKT 2011-2021 Option Scheme as at the date of listing and December 31, 2011 and no options were granted to or exercised by any directors of HKT and the trustee manager or the chief executive of HKT or employees of HKT Group or other participants nor cancelled or lapsed during the year ended December 31, 2011.

ii. Share Stapled Units award schemes of HKT

On October 11, 2011, HKT conditionally adopted two award schemes pursuant to which awards of Share Stapled Units may be made, namely the HKT Share Stapled Units Purchase Scheme and the HKT Share Stapled Units Subscription Scheme (collectively the "HKT Share Stapled Units Award Schemes").

The HKT Share Stapled Units Award Schemes are on similar terms and were conditionally adopted by HKT which became effective upon listing as a potential means to incentivize and reward the eligible participants as follows:

In the case of the HKT Share Stapled Units Purchase Scheme:

- (i) any full-time or part-time employees of HKT and/or any of its subsidiaries;
- (ii) any director (including executive, non-executive and independent non-executive director) of HKT and/or any of its subsidiaries.

In the case of the HKT Share Stapled Units Subscription Scheme:

The same group of potential eligible participants as referred to above except for any directors of HKT or its subsidiaries and/or any other connected persons of HKT.

The HKT Share Stapled Units Award Schemes are administered by the board of directors of HKT ("HKT Board") and an independent trustee (the "Trustee"), as trustee appointed to hold the relevant Share Stapled Units until such time as the Share Stapled Units vest in the selected participants.

Awards may be made by HKT Board or any committee, sub-committee or person duly delegated, such as the remuneration committee and, in the case of Share Stapled Units that are not vested or transferred as originally intended, the Trustee may hold such units and income deriving therefrom for the purpose of any eligible participants, having taken into consideration the recommendations of HKT Board.

No awards have been made or agreed to be made, under the HKT Share Stapled Units Award Schemes for the year ended December 31, 2011.

33 (DEFICIT)/RESERVES

In HK\$ million	2010										
	Share premium	Special capital reserve (note(a))	Capital redemption reserve	Treasury stock	Employee share-based compensation reserve	Currency translation reserve	Hedging reserve	Available-for-sale financial assets reserve	Other reserve	(Deficit)/ Retained profits	Total
THE GROUP											
At January 1, 2010	7,989	12,401	3	(18)	96	577	266	66	-	(28,518)	(7,138)
Total comprehensive income for the year	-	-	-	-	-	332	(70)	17	-	1,926	2,205
Dividend paid in respect of previous year	-	(901)	-	-	-	-	-	-	-	-	(901)
Dividend declared and paid in respect of the current year	-	(370)	-	-	-	-	-	-	-	-	(370)
Issue of ordinary shares, net of issuing expenses	1,154	-	-	-	-	-	-	-	-	-	1,154
Increase in ownership interest in a subsidiary	-	-	-	-	-	-	-	-	(31)	-	(31)
At December 31, 2010	9,143	11,130	3	(18)	96	909	196	83	(31)	(26,592)	(5,081)
THE COMPANY											
At January 1, 2010	7,989	12,401	3	-	95	-	-	-	-	6,442	26,930
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	1,949	1,949
Dividend paid in respect of previous year	-	(901)	-	-	-	-	-	-	-	-	(901)
Dividend declared and paid in respect of the current year	-	(370)	-	-	-	-	-	-	-	-	(370)
Issue of ordinary shares, net of issuing expenses	1,154	-	-	-	-	-	-	-	-	-	1,154
At December 31, 2010	9,143	11,130	3	-	95	-	-	-	-	8,391	28,762

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33 (DEFICIT)/RESERVES (CONTINUED)

In HK\$ million	2011										
	Share premium	Special capital reserve (note (a))	Capital redemption reserve	Treasury stock	Employee share-based compensation reserve	Currency translation reserve	Hedging reserve	Available-for-sale financial assets reserve	Other reserve	(Deficit)/Retained profits	Total
THE GROUP											
At January 1, 2011	9,143	11,130	3	(18)	96	909	196	83	(31)	(26,592)	(5,081)
Total comprehensive income for the year	-	-	-	-	-	170	(42)	98	-	1,607	1,833
Dividend paid in respect of previous year	-	(742)	-	-	-	-	-	-	-	-	(742)
Dividend declared and paid in respect of the current year	-	(385)	-	-	-	-	-	-	-	-	(385)
Special dividend in specie	-	(1,443)	-	-	-	-	-	-	-	-	(1,443)
Dilution of interest in HKT Group (note (b))	-	-	-	-	-	-	-	-	-	10,104	10,104
At December 31, 2011	9,143	8,560	3	(18)	96	1,079	154	181	(31)	(14,881)	4,286
THE COMPANY											
At January 1, 2011	9,143	11,130	3	-	95	-	-	-	-	8,391	28,762
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	169	169
Dividend paid in respect of previous year	-	(742)	-	-	-	-	-	-	-	-	(742)
Dividend declared and paid in respect of the current year	-	(385)	-	-	-	-	-	-	-	-	(385)
Special dividend in specie	-	(1,443)	-	-	-	-	-	-	-	-	(1,443)
At December 31, 2011	9,143	8,560	3	-	95	-	-	-	-	8,560	26,361

a. 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, 2011, the total cash set aside was approximately HK\$32 million (2010: HK\$32 million) and was recorded under “Restricted cash” in the balance sheet of the Company. Accordingly, as at December 31, 2011, the Company had special capital reserve, which can be distributed as dividend in accordance with above, of HK\$8,560 million (2010: HK\$11,130 million). Inclusive of retained profits of HK\$8,560 million (2010: HK\$8,391 million), the Company has total distributable reserves of HK\$17,120 million (2010: HK\$19,521 million).

b. As a result of the dilution of interest in HKT Group in November 2011, the Group has received proceeds of HK\$9,302 million from the HKT Trust Global Offering and incurred directly attributable costs of HK\$618 million. As a result, the Group has recognized a gain of HK\$10,104 million to equity which represents the difference between the net proceeds of HK\$8,684 million received from the dilution of interest in HKT Group and a debit balance of HK\$1,420 million in non-controlling interest recorded. The non-controlling interest was calculated using the HKT Group’s historical book values as recorded in the Group’s consolidated financial statements as of the date of the dilution of interest in HKT Group.

34 DEFERRED INCOME TAX

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

In HK\$ million	The Group 2010							Total
	Accelerated tax depreciation	Valuation adjustment resulting from acquisition of subsidiaries	Leasing partnership	Revaluation of properties	Tax losses	Others		
Beginning of year	957	281	11	(8)	–	(30)	1,211	
Charged/(Credited) to consolidated income statement (<i>note 12(a)</i>)	614	(31)	(11)	299	(71)	10	810	
Exchange differences	10	–	–	–	–	–	10	
End of year	1,581	250	–	291	(71)	(20)	2,031	

In HK\$ million	The Group 2011							Total
	Accelerated tax depreciation	Valuation adjustment resulting from acquisition of subsidiaries	Leasing partnership	Revaluation of properties	Tax losses	Others		
Beginning of year	1,581	250	–	291	(71)	(20)	2,031	
Charged/(Credited) to consolidated income statement (<i>note 12(a)</i>)	57	(46)	–	6	(3)	–	14	
Exchange differences	16	–	–	13	–	–	29	
End of year	1,654	204	–	310	(74)	(20)	2,074	

In HK\$ million	The Group	
	2010	2011
Net deferred income tax assets recognized in the consolidated balance sheet	(78)	(148)
Net deferred income tax liabilities recognized in the consolidated balance sheet	2,109	2,222
	2,031	2,074

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34 DEFERRED INCOME TAX (CONTINUED)

b. During the year, deferred income tax assets of HK\$3 million (2010: HK\$71 million) had been reversed for tax losses carry-forward to the extent that realization of the related tax benefit through utilization against future taxable profits is probable. The Group has unutilized estimated tax losses for which no deferred income tax assets have been recognized of HK\$17,377 million (2010: HK\$17,550 million) to carry forward for deduction against future taxable income. Estimated tax losses of HK\$216 million (2010: HK\$309 million) and nil (2010: HK\$33 million) will expire within 1–5 years and after 5 years from December 31, 2011 respectively. The remaining portion of the tax losses, mainly relating to Hong Kong companies, can be carried forward indefinitely.

35 CARRIER LICENCE FEE LIABILITIES

As at December 31, 2011, the Group had carrier licence fee liabilities repayable as follows:

In HK\$ million	2010			2011		
	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	143	11	154	187	12	199
– over one year, but not exceeding two years	137	24	161	145	26	171
– over two years, but not exceeding five years	390	153	543	411	162	573
– over five years	368	233	601	259	141	400
	1,038	421	1,459	1,002	341	1,343
Less: Amounts repayable within one year included under current liabilities	(143)	(11)	(154)	(187)	(12)	(199)
	895	410	1,305	815	329	1,144

36 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

In HK\$ million	The Group	
	2010	2011
Profit before income tax	3,080	2,318
Adjustment for:		
Provision for inventory obsolescence	9	10
Interest income	(27)	(71)
Interest expense	1,331	1,315
Finance charges	247	245
Cash flow hedges: transferred from equity	1	1
Fair value losses/(gains) on derivative financial instruments on fair value hedges	88	(198)
Fair value adjustment of borrowings attributable to interest rate risk	(80)	202
Depreciation of property, plant and equipment	2,678	2,549
Net realized gains on disposal of available-for-sale financial assets	(10)	–
Realized gains from investment in available-for-sale financial assets	(21)	–
Net gains on cash flow hedging instruments transferred from equity	(41)	(39)
Fair value gains on investment properties	(1,155)	(25)
Provision for impairment of investments	21	–
Net realized gains on disposal of an associate	(1)	–
Impairment loss on an interest in a jointly controlled company	–	16
Assets and business received from the JV	–	(644)
Reversal of provision for rental guarantee	(2)	–
Loss/(gain) on disposal of property, plant and equipment	45	(1)
Impairment loss for doubtful debts	119	169
Amortization of intangible assets	1,099	1,378
Amortization of land lease premium		
– interests in leasehold land	23	22
Share of results of associates and jointly controlled companies	82	(32)
Negative goodwill resulted from acquisition of subsidiaries	(2)	–
Exchange gains	(1)	–
(Increase)/Decrease in operating assets		
– properties held for/under development/for sale	(162)	259
– inventories	140	(190)
– trade receivables	(218)	(724)
– prepayments, deposits and other current assets	(681)	(294)
– sales proceeds held in stakeholders' accounts	426	213
– restricted cash	(1,301)	1,546
– amounts due from related companies	6	2
– other non-current assets	(24)	(49)
(Decrease)/Increase in operating liabilities		
– trade payables, accruals and other payables and deferred income	(388)	182
– amount payable to the Government under the Cyberport Project Agreement	773	(1,003)
– amounts due to related companies	(73)	(39)
– other long-term liabilities	(12)	(6)
– advances from customers	75	(110)
CASH GENERATED FROM OPERATIONS	6,044	7,002
Interest received	21	77
Income tax paid, net of tax refund		
– Hong Kong profits tax paid	(100)	(241)
– overseas profits tax paid	(45)	(60)
NET CASH GENERATED FROM OPERATING ACTIVITIES	5,920	6,778

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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36 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

b. Acquisition of subsidiaries

In HK\$ million	The Group	
	2010	2011
Net assets/(liabilities) acquired:		
Property, plant and equipment	1	–
Intangible assets	2	–
Interests in jointly controlled companies	3	–
Trade receivables, prepayments, deposits and other current assets	46	–
Inventories	6	–
Cash and cash equivalents	26	–
Trade payables, accruals, other payables and advances from customers	(71)	–
Short-term borrowings	(6)	–
	7	–
Goodwill on acquisition	55	–
Negative goodwill resulted from acquisition	(2)	–
Purchase consideration	60	–
Satisfied by:		
Cash	34	–
Acquisition-related contingent consideration payable	26	–
	60	–
Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries:		
Purchase consideration settled in cash	(34)	–
Cash and cash equivalents of subsidiaries acquired	26	–
Net cash outflow in respect of acquisition of subsidiaries	(8)	–

c. Analysis of cash and cash equivalents

In HK\$ million	The Group		The Company	
	2010	2011	2010	2011
Cash and bank balances	10,420	6,101	226	119
Bank overdrafts	(38)	(1)	–	–
Restricted cash	(2,281)	(735)	(32)	(32)
Cash and cash equivalents as at December 31,	8,101	5,365	194	87

37 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, and benefits for other stakeholders, 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 share capital, share premium, special capital reserve, capital redemption reserve, treasury stock, employee share-based compensation reserve, currency translation reserve, hedging reserve, available-for-sale financial assets reserve and other reserve.

The Adjusted Capital at December 31, 2010 and 2011 was as follows:

In HK\$ million	The Group 2010	2011
Equity attributable to equity holders of the Company	(3,263)	6,104
Add back: Accumulated deficits	26,592	14,881
Adjusted Capital	23,329	20,985

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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38 FINANCIAL INSTRUMENTS

The tables below analyses financial instruments by category:

In HK\$ million	The Group 2010				Total
	Held-to-maturity investments	Loans and receivables	Derivatives used for hedging	Available-for-sale financial assets	
Non-current assets					
Held-to-maturity investments	2	–	–	–	2
Available-for-sale financial assets	–	–	–	281	281
Derivative financial instruments	–	–	152	–	152
Other non-current assets	–	35	–	–	35
	2	35	152	281	470
Current assets					
Sale proceeds held in stakeholders' accounts	–	845	–	–	845
Restricted cash	–	2,281	–	–	2,281
Prepayments, deposits and other current assets (excluding prepayments)	–	2,529	–	–	2,529
Amounts due from related companies	–	2	–	–	2
Derivative financial instruments	–	–	17	–	17
Trade receivables, net	–	2,529	–	–	2,529
Cash and cash equivalents	–	8,101	–	–	8,101
	–	16,287	17	–	16,304
Total	2	16,322	169	281	16,774

In HK\$ million	The Group 2010		Total
	Derivatives used for hedging	Other financial liabilities at amortized cost	
Current liabilities			
Short-term borrowings	–	7,800	7,800
Trade payables	–	1,705	1,705
Accruals and other payables	–	4,005	4,005
Amount payable to the Government under the Cyberport Project Agreement	–	1,606	1,606
Carrier licence fee liabilities	–	143	143
Amounts due to related companies	–	57	57
	–	15,316	15,316
Non-current liabilities			
Long-term borrowings	–	27,041	27,041
Derivative financial instruments	102	–	102
Carrier licence fee liabilities	–	895	895
Other long-term liabilities	–	119	119
	102	28,055	28,157
Total	102	43,371	43,473

38 FINANCIAL INSTRUMENTS (CONTINUED)

The tables below analyses financial instruments by category: (continued)

In HK\$ million	The Group 2011				Total
	Held-to-maturity investments	Loans and receivables	Derivatives used for hedging	Available-for-sale financial assets	
Non-current assets					
Held-to-maturity investments	2	–	–	–	2
Available-for-sale financial assets	–	–	–	575	575
Derivative financial instruments	–	–	275	–	275
Other non-current assets	–	41	–	–	41
	2	41	275	575	893
Current assets					
Sale proceeds held in stakeholders' accounts	–	632	–	–	632
Restricted cash	–	735	–	–	735
Prepayments, deposits and other current assets (excluding prepayments)	–	2,626	–	–	2,626
Trade receivables, net	–	3,084	–	–	3,084
Cash and cash equivalents	–	5,365	–	–	5,365
	–	12,442	–	–	12,442
Total	2	12,483	275	575	13,335

In HK\$ million	The Group 2011	
	Other financial liabilities at amortized cost	Total
Current liabilities		
Short-term borrowings	40	40
Trade payables	1,777	1,777
Accruals and other payables	4,134	4,134
Amount payable to the Government under the Cyberport Project Agreement	603	603
Carrier licence fee liabilities	187	187
Amounts due to related companies	27	27
	6,768	6,768
Non-current liabilities		
Long-term borrowings	23,470	23,470
Carrier licence fee liabilities	815	815
Other long-term liabilities	120	120
	24,405	24,405
Total	31,173	31,173

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38 FINANCIAL INSTRUMENTS (CONTINUED)

The tables below analyses financial instruments by category: (continued)

In HK\$ million	The Company	
	Loans and receivables	
	2010	2011
Current assets		
Amounts due from subsidiaries	18,262	17,423
Restricted cash	32	32
Prepayments, deposits and other current assets (excluding prepayments)	9	9
Cash and cash equivalents	194	87
Total	18,497	17,551

In HK\$ million	The Company	
	Other financial liabilities at amortized cost	
	2010	2011
Current liabilities		
Accruals and other payables	7	19
Total	7	19

Exposures to credit, liquidity, and market (including foreign currency, interest rate) risks arise 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, interest 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. As at December 31, 2010 and 2011, the Group did not have a significant exposure to any individual debtors or counterparties.

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, 2010 and 2011, the amounts due from related companies and other receivables were fully performing.

38 FINANCIAL INSTRUMENTS (CONTINUED)

a. Credit risk (continued)

Investments, derivative financial instruments, interest 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.

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 40, 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 significant 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 2010				Total contractual undiscounted cash outflow	Carrying amount
	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		
Current liabilities						
Short-term borrowings	(8,336)	–	–	–	(8,336)	(7,800)
Trade payables	(1,705)	–	–	–	(1,705)	(1,705)
Accruals and other payables	(4,005)	–	–	–	(4,005)	(4,005)
Amount payable to the Government under the Cyberport Project Agreement	(1,606)	–	–	–	(1,606)	(1,606)
Carrier licence fee liabilities	(154)	–	–	–	(154)	(143)
Amounts due to related companies	(57)	–	–	–	(57)	(57)
	(15,863)	–	–	–	(15,863)	(15,316)
Non-current liabilities						
Long-term borrowings	(753)	(763)	(19,880)	(8,931)	(30,327)	(27,041)
Derivative financial instruments	63	39	(120)	(103)	(121)	(102)
Carrier licence fee liabilities	–	(161)	(543)	(601)	(1,305)	(895)
Other long-term liabilities	(3)	(20)	(70)	(48)	(141)	(119)
	(693)	(905)	(20,613)	(9,683)	(31,894)	(28,157)
Total	(16,556)	(905)	(20,613)	(9,683)	(47,757)	(43,473)

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38 FINANCIAL INSTRUMENTS (CONTINUED)

b. Liquidity risk (continued)

In HK\$ million	The Group 2011					Total contractual undiscounted cash outflow	Carrying amount
	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	More than 5 years		
Current liabilities							
Short-term borrowings	(42)	–	–	–	–	(42)	(40)
Trade payables	(1,777)	–	–	–	–	(1,777)	(1,777)
Accruals and other payables	(4,134)	–	–	–	–	(4,134)	(4,134)
Amount payable to the Government under the Cyberport Project Agreement	(603)	–	–	–	–	(603)	(603)
Carrier licence fee liabilities	(199)	–	–	–	–	(199)	(187)
Amounts due to related companies	(27)	–	–	–	–	(27)	(27)
	(6,782)	–	–	–	–	(6,782)	(6,768)
Non-current liabilities							
Long-term borrowings	(686)	(8,750)	(16,011)	–	–	(25,447)	(23,470)
Carrier licence fee liabilities	–	(171)	(573)	(400)	–	(1,144)	(815)
Other long-term liabilities	(4)	(28)	(58)	(64)	–	(154)	(120)
	(690)	(8,949)	(16,642)	(464)	–	(26,745)	(24,405)
Total	(7,472)	(8,949)	(16,642)	(464)	–	(33,527)	(31,173)

In HK\$ million	The Company					Total contractual undiscounted cash outflow	Carrying amount
	2010 Total contractual undiscounted cash outflow	2011 Total contractual undiscounted cash outflow	2011 Total contractual undiscounted cash outflow	2011 Total contractual undiscounted cash outflow	2011 Total contractual undiscounted cash outflow		
Current liabilities							
Accruals and other payables	(7)	(7)	(7)	(7)	(19)	(19)	(19)
Total	(7)	(7)	(7)	(7)	(19)	(19)	(19)

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 cross currency swap 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 Group determines the appropriate risk management activities with the aim of prudently managing the market risk associated with transactions entered into in the normal course of business.

38 FINANCIAL INSTRUMENTS (CONTINUED)

c. Market risk (continued)

All treasury risk management activities are carried out in accordance with policies and guidelines approved by the Group, 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.

The Group's borrowings are mainly denominated in either Hong Kong dollars or United States dollars. As at December 31, 2010 and 2011, majority of the Group's short-term and long-term borrowings denominated in United States dollars were swapped into Hong Kong dollars 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. Certain portion of the cross currency swap contracts outstanding as at December 31, 2011 with an aggregate notional contract amount of US\$1,500 million (approximately HK\$11,664 million) (2010: US\$2,500 million (approximately HK\$19,454 million)) were designated as cash flow hedges against foreign exchange rate risk.

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.

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			
	2010 United States Dollars	Chinese Renminbi	2011 United States Dollars	Chinese Renminbi
Trade receivables	578	331	710	412
Cash and cash equivalents	1,491	651	1,246	1,011
Trade payables	(752)	(172)	(619)	(187)
Amounts due to related companies	(64)	–	(39)	–
Short-term borrowings	(7,800)	–	(31)	(9)
Long-term borrowings	(11,518)	(12)	(11,729)	–
Gross exposure arising from recognized financial (liabilities)/assets	(18,065)	798	(10,462)	1,227
Net financial liabilities denominated in respective entities' functional currencies	(67)	(808)	(60)	(1,230)
Notional amounts of cross currency swap contracts designated as cash flow hedges	19,454	–	11,664	–
Overall net exposure	1,322	(10)	1,142	(3)

38 FINANCIAL INSTRUMENTS (CONTINUED)

c. Market risk (continued)

i. Foreign currency risk (continued)

As at December 31, 2011, 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\$10 million (2010: HK\$11 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, 2011 would have been increased/decreased by approximately HK\$117 million (2010: HK\$195 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, 2011, if Hong Kong dollar had weakened/strengthened by 5% against the Chinese Renminbi, with all other variables held constant, there would be no material impact on the Group's profit after tax for the years ended December 31, 2010 and 2011.

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 2010.

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 short-term and 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 draws under long-term revolving credit and term facilities which are denominated in Hong Kong dollars and pays interest at floating rate.

The Group has entered into fixed-to-floating cross currency swap contracts to hedge the fair value interest rate risk arising from certain of its fixed rate long-term borrowings.

38 FINANCIAL INSTRUMENTS (CONTINUED)

c. Market risk (continued)

ii. Interest rate risk (continued)

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 and fair value hedging instruments.

In HK\$ million, except for %

	The Group		2011	
	2010		Effective	
	Effective		interest rate	
	interest rate			
	%		%	
Net fixed rate borrowings:				
Short term borrowings with cash flow hedging instruments	7.93	7,772	–	–
Long term borrowings with cash flow hedging instruments	5.77	7,745	5.77	7,748
		15,517		7,748
Variable rate borrowings:				
Bank borrowings	1.59	15,551	1.45	11,783
Long term borrowings with fair value hedging instruments	4.46	3,773	4.46	3,979
		19,324		15,762
Total borrowings		34,841		23,510

At December 31, 2011, 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\$11 million (2010: HK\$8 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 2010.

iii. Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale financial assets (see note 25). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2011

(Amount expressed in Hong Kong dollars unless otherwise stated)

38 FINANCIAL INSTRUMENTS (CONTINUED)

d. Fair values

All financial instruments are carried at amounts not materially different from their fair values as at December 31, 2010 and 2011 except as follows, with fair value calculated by quoted prices:

In HK\$ million	The Group			
	2010 Carrying amount	Fair value	2011 Carrying amount	Fair value
Short-term borrowings	(7,800)	(8,220)	(40)	(40)
Long-term borrowings	(27,041)	(27,693)	(23,470)	(23,861)

e. Estimation of fair values

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices that are observable either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for asset or liability that are not based on observable market data (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at December 31, 2011:

In HK\$ million	The Group 2010			
	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets				
– Listed equity securities	56	–	–	56
– Unlisted equity securities	–	–	225	225
Derivative financial instruments (non-current)	–	152	–	152
Derivative financial instruments (current)	–	17	–	17
Total assets	56	169	225	450
Liabilities				
Derivative financial instruments (non-current)	–	(102)	–	(102)

In HK\$ million	The Group 2011			
	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets				
– Listed equity securities	78	–	–	78
– Unlisted equity securities	–	–	497	497
Derivative financial instruments (non-current)	–	275	–	275
Total assets	78	275	497	850

38 FINANCIAL INSTRUMENTS (CONTINUED)

e. Estimation of fair values (continued)

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group included in level 1 is the current bid price. Instruments included in level 1 comprise primarily available-for-sale financial assets listed on the Alternative Investment Market operated by London Stock Exchange plc.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. Instruments included in level 2 comprise primarily cross currency swap contracts.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. Instruments included in level 3 comprise available-for-sale financial assets.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of cross currency swap contracts is calculated as the present value of the estimated future cash flows discounted by observable interest rates.
- For unlisted securities or financial assets without an active market, the Group 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, and discounted cash flow analysis, 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.

The following table presents the changes in level 3 instruments for the year ended December 31, 2011:

In HK\$ million	The Group	
	Available-for-sale financial assets – unlisted equity securities	
	2010	2011
Opening balance	266	225
Additions	28	229
Return of investment	(64)	–
Disposals	–	(31)
Unrealized fair value gains transferred to equity	16	74
Impairment loss recognized	(21)	–
	225	497

The estimated fair value of level 3 financial assets as at December 31, 2011 was HK\$497 million (2010: HK\$225 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2011

(Amount expressed in Hong Kong dollars unless otherwise stated)

39 COMMITMENTS

a. Capital

In HK\$ million	The Group 2010	2011
Authorized and contracted for	1,075	1,412
Authorized but not contracted for	1,007	968
	2,082	2,380

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

In HK\$ million	The Group 2010	2011
Investments	104	285
Investment properties	7	40
Property development	67	86
Acquisition of property, plant and equipment	1,903	1,968
Others	1	1
	2,082	2,380

b. Operating leases

As at December 31, 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

Land and buildings

In HK\$ million	The Group 2010	2011
Within 1 year	676	753
After 1 year but within 5 years	1,008	1,008
After 5 years	363	308
	2,047	2,069

Network capacity and equipment

In HK\$ million	The Group 2010	2011
Within 1 year	348	391
After 1 year but within 5 years	354	348
After 5 years	62	155
	764	894

Majority of the leases typically run for a period of 1 to 14 years. None of the leases include contingent rentals.

39 COMMITMENTS (CONTINUED)

c. Others

As at December 31, 2011, the Group has other outstanding commitments as follows:

In HK\$ million	The Group 2010	2011
Purchase of rights to broadcast certain TV content	1,030	1,075
Operating expenditure commitment	248	237
Others	2	–
	1,280	1,312

40 CONTINGENT LIABILITIES

In HK\$ million	The Group		The Company	
	2010	2011	2010	2011
Performance guarantee	377	444	5	172
Tender guarantee	11	1	–	–
Guarantee in lieu of cash deposit	4	4	2	2
Employee compensation	6	3	6	3
Guarantee indemnity	11	11	–	–
Others	12	12	–	–
	421	475	13	177

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

41 BANK LOAN FACILITIES

Aggregate bank loan facilities as at December 31, 2011 were HK\$23,851 million (2010: HK\$30,320 million) of which the unused facilities amounted to HK\$11,955 million (2010: HK\$14,486 million).

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

Security pledged for certain bank loan facilities includes:

In HK\$ million	The Group 2010	2011
Property, plant and equipment	72	67
Investment properties	5,074	5,370
Trade receivables	44	37
Bank deposit	3	2
	5,193	5,476

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2011

(Amount expressed in Hong Kong dollars unless otherwise stated)

42 BUSINESS COMBINATIONS

a. Business combinations for the year ended December 31, 2011

There was no business combination transaction occurred for the year ended December 31, 2011.

b. Business combinations for the year ended December 31, 2010

i. Acquisition of UKB Solutions Limited and UKB Wireless Solutions Limited (formerly known as 802 Global Limited)

On May 14, 2010, the Group acquired 100 per cent of the share capital of UKB Solutions Limited and UKB Wireless Solutions Limited, companies incorporated in the United Kingdom. The acquirees' business covers the supply, design and distribution of wireless network solutions. The Group made an initial payment for acquisition totaling HK\$34 million in cash and may potentially have to make additional payments totaling up to HK\$41 million in cash if the acquired businesses achieve certain financial milestones within a specified period. The fair value of the contingent consideration is estimated at approximately HK\$26 million at the date of acquisition and has been included in the purchase price of UKB Solutions Limited and UKB Wireless Solutions Limited.

As at December 31, 2011, there was no change in the estimate of the contingent consideration payable after a review on the estimate of the future financial result of the acquirees.

The Group is required to recognize the acquirees' identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the acquisition date. The initial accounting for the acquisition of UKB Solutions Limited and UKB Wireless Solutions Limited is complete as at December 31, 2011, and the fair values of the acquirees' identifiable assets, liabilities and contingent liabilities are concluded to be the same as their carrying amounts as at the acquisition date. As a result, no adjustment to the provisional amounts and goodwill for the year ended December 31, 2011 are required.

(i) Details of net assets acquired and goodwill in respect of acquisitions of the wireless network solution operations at the acquisition date were as follows:

In HK\$ million

	Net assets acquired and goodwill
Purchase consideration settled in cash	34
Contingent consideration payable	26
Purchase consideration	60
Less: Fair value of net assets acquired	(5)
Goodwill on acquisition (<i>note 20</i>)	55

The goodwill is attributable to future profit generated from the wireless network solution operations.

The carrying amounts of assets and liabilities of the wireless network solution operations at the acquisition date were as follows:

In HK\$ million

	Fair value	Carrying Amount
Property, plant and equipment	1	1
Intangible assets	2	2
Trade receivables, prepayments, deposits and other current assets	35	35
Inventories	6	6
Trade payables, accruals and other payables	(33)	(33)
Short-term borrowings	(6)	(6)
Net assets acquired	5	5

42 BUSINESS COMBINATIONS (CONTINUED)

b. Business combinations for the year ended December 31, 2010 (continued)

i. Acquisition of UKB Solutions Limited and UKB Wireless Solutions Limited (formerly known as 802 Global Limited) (continued)

In HK\$ million

	Net cash outflow
Purchase consideration settled in cash	(34)
Cash and cash equivalents of wireless network solution operations acquired	–
Cash outflow on acquisition of wireless network solution operations (note 36(b))	(34)

(ii) Acquisition-related costs

Acquisition-related costs of HK\$2 million are included in the consolidated income statement for the year ended December 31, 2010.

(iii) Revenue and profit contribution

The acquired business contributed revenue of HK\$26 million and resulted in a net loss of HK\$5 million to the Group for the period from the date of acquisition to December 31, 2010. If the acquisition had occurred on January 1, 2010, the acquired business's revenue would have been HK\$43 million, and net loss for the year ended December 31, 2010 would have been HK\$6 million.

ii. Acquisition of PC Music Holdings Limited and its subsidiaries and jointly controlled companies (together the "PC Music Group")

The Group acquired 100 per cent of the share capital of PC Music Holdings Limited, a company incorporated in the British Virgin Islands with a consideration of HK\$1 on the effective acquisition date of September 30, 2010. The business of the PC Music Group covers the marketing, distribution and licensing of audio and visual musical concert content and music copyrights and agency services to artists and organizing and producing music concerts and shows primarily in Hong Kong.

(i) Details of net assets acquired and goodwill in respect of acquisition of PC Music Group at the acquisition date were as follows:

In HK\$ million	Net assets acquired and goodwill
Purchase consideration	–
Less: Fair value of net assets acquired	(2)
Negative goodwill resulted from acquisition	(2)

The negative goodwill has been recognized in other gains, net in the consolidated income statement.

The assets and liabilities of the PC Music Group at the acquisition date were as follows:

In HK\$ million

	Fair value	Carrying Amount
Interests in jointly controlled companies	3	3
Trade receivables, prepayments, deposits and other current assets	11	44
Cash and cash equivalents	26	26
Trade payables, accruals and other payables	(21)	(21)
Advances from customers	(17)	(17)
Net assets acquired	2	35

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2011

(Amount expressed in Hong Kong dollars unless otherwise stated)

42 BUSINESS COMBINATIONS (CONTINUED)

b. Business combinations for the year ended December 31, 2010 (continued)

ii. Acquisition of PC Music Holdings Limited and its subsidiaries and jointly controlled companies (together the "PC Music Group") (continued)

In HK\$ million	Net cash inflow
Purchase consideration settled in cash	–
Cash and cash equivalents of PC Music Group acquired	26
Cash inflow on acquisition of PC Music Group (note 36(b))	26

(ii) Acquisition-related costs

Acquisition-related costs included in the consolidated income statement are insignificant.

(iii) Revenue and profit contribution

The acquired business contributed revenue of HK\$12 million and resulted in a net profit of HK\$1 million to the Group for the period from the date of acquisition to December 31, 2010. If the acquisition had occurred on January 1, 2010, the acquired business's revenue would have been HK\$50 million, and net profit for the year ended December 31, 2010 would have been HK\$4 million.

43 TRANSACTION WITH NON-CONTROLLING INTERESTS

a. Transaction with non-controlling interests for the year ended December 31, 2011

In November 2011, the Group's interest in the HKT Group was diluted upon the completion of the HKT Trust Global Offering. This dilution of interest in HKT Group represents a transaction with non-controlling interests and was treated as a transaction with equity owners.

b. Transaction with non-controlling interests for the year ended December 31, 2010

On December 23, 2010, the Group acquired an additional 15% of the issued shares of Interactive Teleservices Corporation (now known as PCCW Teleservices (US), Inc.), a subsidiary of IP BPO Holdings Pte. Ltd. for a purchase consideration of approximately HK\$31 million. The carrying amount of the non-controlling interests in Interactive Teleservices Corporation on the date of acquisition was nil. The Group recognized a decrease in equity attributable to the equity holders of the Company of HK\$31 million. The effect of changes in the ownership interest of Interactive Teleservices Corporation on the equity attributed to the equity holders of the Company during the year ended 31 December, 2010 is summarized as follows:

In HK\$ million	2010	2011
Consideration paid to non-controlling interests for an increase in ownership interest in a subsidiary	31	–
Less: Carrying amount of non-controlling interests acquired	–	–
Excess of consideration paid in the transactions with non-controlling interests recognized within equity	31	–

44 POSSIBLE IMPACT OF AMENDMENTS, NEW OR REVISED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2011

Up to the date of approval of these financial statements, the HKICPA has issued the following amendments, new or revised standards and interpretations which are not yet effective for the accounting period ended December 31, 2011 and which have not been adopted in these financial statements:

		Effective for accounting periods beginning on or after
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards	July 1, 2011
HKFRS 7 (Amendment)	Financial Instruments: Disclosure	July 1, 2011
HKAS 12 (Amendment)	Income Taxes	January 1, 2012
HKAS 1 (Revised) (Amendment)	Presentation of Financial Statements	July 1, 2012
HKFRS 10	Consolidated Financial Statements	January 1, 2013
HKFRS 11	Joint Arrangements	January 1, 2013
HKFRS 12	Disclosure of Interests in Other Entities	January 1, 2013
HKFRS 13	Fair Value Measurement	January 1, 2013
HKAS 19 (2011)	Employee Benefits	January 1, 2013
HKAS 27 (2011)	Separate Financial Statements	January 1, 2013
HKAS 28 (2011)	Investments in Associates and Joint Ventures	January 1, 2013
HKFRS 9	Financial Instruments	January 1, 2015

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, 2011 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 or revised 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, 2011

Results

In HK\$ million	2007	2008	2009	2010	2011
Turnover	23,715	31,951	25,077	22,962	24,638
Cost of sales	(10,538)	(17,850)	(12,254)	(10,533)	(11,397)
General and administrative expenses	(9,144)	(10,005)	(9,029)	(8,924)	(9,604)
Other (losses)/gains, net	(3)	(464)	168	1,217	143
Losses on property, plant and equipment	(7)	(103)	(61)	–	–
Interest income	429	197	18	27	71
Finance costs	(1,658)	(1,473)	(1,485)	(1,587)	(1,565)
Share of results of equity accounted entities	13	11	(55)	(82)	32
Impairment losses (recognized)/reversed on interests in associates and jointly controlled companies	–	(31)	1	–	–
Profit before income tax	2,807	2,233	2,380	3,080	2,318
Income tax	(970)	(711)	(585)	(756)	(542)
Profit for the year	1,837	1,522	1,795	2,324	1,776
Attributable to:					
Equity holders of the Company	1,503	1,272	1,506	1,926	1,607
Non-controlling interests	334	250	289	398	169

Assets and Liabilities

As at December 31, in HK\$ million	2007	2008	2009	2010	2011
Total non-current assets	29,797	29,535	27,934	29,387	30,909
Total current assets	21,560	27,070	17,049	18,746	14,941
Total current liabilities	(26,145)	(16,723)	(9,827)	(17,744)	(10,747)
Net current (liabilities)/assets	(4,585)	10,347	7,222	1,002	4,194
Total assets less current liabilities	25,212	39,882	35,156	30,389	35,103
Total non-current liabilities	(20,861)	(34,982)	(37,181)	(30,997)	(27,523)
Net assets/(liabilities)	4,351	4,900	(2,025)	(608)	7,580

Distributable Reserves of the Company

As at December 31, in HK\$ million	2007	2008	2009	2010	2011
Distributable reserves of the Company	46,604	27,584	18,843	19,521	17,120

SCHEDULE OF PRINCIPAL PROPERTIES

Year 2011

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	27,028	40,077	Medium	62%
Tower B	Investment properties	Existing	Office for lease		17,558	Medium	62%
Tower C	Investment properties	Existing	Residential		21,307	Long	62%
Tower D	Investment properties	Existing	Residential		10,034	Long	62%
Podium	Investment properties	Existing	For lease		75,431	Medium	62%
Car parking spaces	Investment properties	Existing	For lease		796 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	520	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 2011 Annual Results	February 28, 2012
Closure of register of members	May 9-10, 2012 (both days inclusive)
Payment of 2011 final dividend	On or around May 18, 2012
2012 Annual General Meeting ("AGM")	May 3, 2012

DIRECTORS

The directors of the Company as at the date of the announcement of the 2011 Annual Results are:

Executive Directors:

Li Tzar Kai, Richard (*Chairman*)
Chan Ching Cheong, George (*Group Managing Director*)
Hui Hon Hing, Susanna (*Group Chief Financial Officer*)
Lee Chi Hong, Robert

Non-Executive Directors:

Sir David Ford, KBE, LVO
Tse Sze Wing, Edmund, GBS
Lu Yimin (*Deputy Chairman*)
Li Fushen
Li Gang

Independent Non-Executive Directors:

Dr The Hon Sir David Li Kwok Po, GBM, GBS, OBE, JP
Aman Mehta
Wei Zhe, David

ANNUAL REPORT 2011

This Annual Report 2011 in both English and Chinese is now available in printed form from the Company and the Company's Share Registrars, and in accessible format on the websites of the Company (www.pccw.com/announcements) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk).

Shareholders who:

- A) received the Annual Report 2011 by electronic means may request a printed copy, or
- B) received the Annual Report 2011 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
17M Floor, Hopewell Centre
183 Queen's Road East, Wan Chai, Hong Kong
Fax: +852 2529 6087/+852 2865 0990
Email: pccw@computershare.com.hk

Shareholders who have chosen to receive the Annual Report 2011 by electronic means through the Company's website and who, for any reason, have difficulty in receiving or gaining access to the Annual Report 2011 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 2011 in printed form, free of charge.

Shareholders may change their choice of language or means of receipt of the Company's future 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 OTC Markets Group Inc. in the United States. Each ADR represents 10 ordinary shares of the Company. Certain United States Dollar guaranteed notes issued by non-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 Depository Bank in New York (including beneficial owners) can vote by proxy at the AGM by completing a voting instruction card provided by the Depository Bank. The Depository 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 Depository at the address given on this page.

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

STOCK CODES

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

SHARE INFORMATION

Board lot:	1,000 shares
Issued shares as at December 31, 2011:	7,272,294,654 shares

DIVIDEND

Dividends per share for the year ended December 31, 2011:	
Interim	5.30 HK cents per ordinary share
Final	10.60 HK cents per ordinary share

REGISTRARS

Computershare Hong Kong Investor Services Limited
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Email: hkinfo@computershare.com.hk

ADR DEPOSITORY

Citibank, N.A.
PCCW American Depositary Receipts
Citibank Shareholder Services
250 Royall Street, Canton, MA 02021, USA
Telephone: 877 248 4237 (toll free within USA)
Telephone: +1 781 575 4555
Email: citibank@shareholders-online.com
Website: www.citi.com/dr

COMPANY SECRETARY

Chu Mee Lai, Helen

REGISTERED OFFICE

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Citibank Plaza, 3 Garden Road
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Telephone: +852 2888 2888
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INVESTOR RELATIONS

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Quarry Bay, Hong Kong
Telephone: +852 2514 5084
Email: ir@pccw.com

WEBSITE

www.pccw.com

PCCW Limited (Incorporated in Hong Kong with limited liability)

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T: +852 2888 2888 F: +852 2877 8877 www.pccw.com

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