Interim Report 2012

Stock Code: 0008

CONTENTS

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 19,800 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).

KEY FIGURES

FINANCIAL HIGHLIGHTS

For the six months ended June 30, 2012
In HK$ million (except for per share data)

	2011 (Unaudited)	**2012 (Unaudited)**
Turnover		
Core revenue*	10,936	**11,058**
PCPD	1,250	**848**
	12,186	**11,906**
Cost of sales	(5,499)	**(5,281)**
General and administrative expenses	(4,873)	**(4,926)**
Other gains, net	99	**12**
Interest income	33	**27**
Finance costs	(763)	**(469)**
Share of results of associates and jointly controlled companies	(8)	**(43)**
Profit before income tax	1,175	**1,226**
Income tax	(292)	**51**
Profit for the period	883	**1,277**
Attributable to:		
Equity holders of the Company	824	**836**
Non-controlling interests	59	**441**
Earnings per share (in HK cents)		
Basic	11.33	**11.51**
Diluted	11.33	**11.51**
Dividend per share (in HK cents)		
Interim dividend	5.30	**5.51**
EBITDA[1]		
Core EBITDA*	3,535	**3,670**
PCPD	240	**166**
	3,775	**3,836**

*Note: Please refer to page 12. Note 1: Please refer to page 14.

STATEMENT FROM THE CHAIRMAN

Despite the travails in Europe which inevitably became a drag on Asian growth, Hong Kong and China not excepted, I am pleased to report that the core businesses of PCCW performed satisfactorily in the first half of 2012.

During the period, now TV continued to enhance its service to the local market both in content and in applications. Offerings such as the exclusive EURO 2012 broadcast and HD on-demand content contributed to an encouraging growth in subscriptions as well as advertising revenue. The introduction of mobile and Internet content apps, including now NEWS and now Player, has effectively expanded our touch-points with customers beyond their homes, thereby strengthening stickiness among its customers and attracting new viewers. Indeed, now TV continued to lead in brand preference surveys among consumers and advertisers, reinforcing its premier position in the pay-TV market during the period.

At the same time, now TV continued to invest in Chinese-language content production for overseas exports opportunities as well as the free-to-air TV license. More progress will be reported in the second half of the year.

Meanwhile, PCCW Solutions forged ahead in their efforts over monetizing the booming demand for data center facilities and opportunities arising from the advent of cloud computing in both Hong Kong and China. With more mission critical project wins in Hong Kong and higher contribution from projects in the mainland, PCCW Solutions reported further revenue growth with improved margin.

HKT, benefiting from the rising tide of data traffic on both fixed and wireless networks, delivered another encouraging set of results both operationally and financially, with the mobile and fiber broadband businesses fulfilling the role of top growth drivers. The telecom business with its strong and steady cashflow generating capability has provided a solid foundation from which PCCW awaits the next opportunity to leap forward.

During the period, Pacific Century Premium Developments completed a share repurchase and restored its public float on the stock exchange. The company is now actively looking for development opportunities in the region.

Looking ahead, we are cautiously optimistic of the full-year performance. While the global economy is still facing headwinds from the Eurozone, we will remain prudent in seeking growth opportunities with a view to delivering greater value for shareholders.

Finally, the Board welcomes Mr. Bryce Wayne Lee, who was appointed an Independent Non-Executive Director of PCCW in May. Mr. Lee has immense investment banking experience in the TMT (telecom, media and technology) and other sectors.

Richard Li
Chairman
August 10, 2012

STATEMENT FROM THE GROUP MANAGING DIRECTOR

It is my pleasure to report that PCCW's core businesses (comprising media, IT solutions and telecom services) performed satisfactorily in the six months to June 30, 2012, contributing to a set of sound financial results for the Group for the first half.

MEDIA BUSINESS EXPANDS ITS HORIZON

The media business reported solid results for the first half with continued expansion of the customer base and growth in ARPU (average revenue per user). This reflects continual up-selling of the premium segment of the customer base as well as our ability to penetrate the market with local content and through our multi-screen strategy.

In fact, an on-going survey of viewers' preferences confirms now TV's position as the preferred pay-TV brand among consumers in Hong Kong, standing head and shoulders above its competition. Similarly, another independent survey among advertisers and media agencies in Hong Kong this year has found that now TV achieved the highest preference ranking among pay-TV operators as well as regional and international channel broadcasters.

One of the most exciting events that now TV brought to Hong Kong soccer fans and advertisers this year was the UEFA EURO 2012, which took place in June and July. The exclusive broadcast of EURO 2012, all in high-definition (HD), has boosted subscriptions for the premium sports pack. The offering of an array of value-added services, including convenient on-demand viewing and multi-screen access through our newly launched now Player Internet web and app services, set now TV apart from its competition and reinforced our innovative brand leadership. It also enabled us to further increase our penetration among the sports viewing customer segment, at the same time allowing now TV to command premium price positioning in the market.

Fully supported by PCCW Solutions, the launch of now TV's on-the-go multi-screen apps, now Player and now NEWS, demonstrates our ability to reach viewers beyond the home TV screens into the personal viewing space. Available on iOS, Android as well as Windows Mobile app stores, these powerful mobile TV tools enable a large number of smartphone and tablet users in Hong Kong to watch free now TV channels and premium entertainment, kids, and sports content (including live channels and on-demand programs) as an extension to their current now TV subscription. With more than 880,000 combined downloads since launch, these apps have brought tremendous promotional value to the core now TV business and opened up opportunities for new customers. They will also continue to generate additional advertising opportunities and strengthen customer loyalty and stickiness.

In other areas of content and service innovation, now TV has expanded its HD channel line-up. Currently, it offers the best and largest selection of HD content service in Hong Kong with 23 full HD channels and the newest HD video-on-demand content covering movies, TV series, sports, factual entertainment, and kids.

Meanwhile, the media group's music service, MOOV, has elaborated its cooperation to cover more than 250 music labels worldwide offering a library of over 1.5 million songs and music videos, catering to the increasing demand and consumption of premium audio-visual entertainment such as concerts. MOOV has also struck Hong Kong's first direct partnership with Korea's top music label and TV station for exclusive Korean music video content capturing the increasing market for K-Pop and Korean entertainment. As the largest digital music service in Hong Kong, MOOV has also reinvented itself as an app available on both iOS and Android platforms this year. It offers the most comprehensive content for unlimited download with flat fee subscriptions so music fans can enjoy music online and offline in Hong Kong and overseas.

With an increasing number of pay-TV platforms around the world and in Southeast Asia, coupled with the increased demand for Chinese-language content, now TV has also embarked on exploring distribution of its content and channels to appeal to the global Chinese communities. The bouquet of now TV channels available for overseas distribution covers the genres of news, finance, movies, variety, drama, entertainment, travel and lifestyle programs.

TRANSFORMING TECHNOLOGY INTO IT SOLUTIONS FOR CUSTOMERS' SUCCESS

Nowadays, information technology is indispensable for businesses which strive for success. Instead of continuing to invest substantially in their in-house IT capability, companies can best utilize their resources by outsourcing parts of this operation to a reliable service provider partner. Employing 2,800 IT and business professionals, PCCW Solutions is attuned to the increasingly complex operational needs of enterprises as well as the latest IT advancement. It works closely with client corporations to understand their business strategies and design systems and methods to maximize return on investment.

PCCW Solutions is a leading IT and business process outsourcing service provider in both Hong Kong and mainland China. In June, it was recognized as No. 1 in the 2011 Top 20 China Service Outsourcing Enterprises in a ranking released by China Software & Services Outsourcing Network – the second consecutive year that PCCW Solutions has achieved the top position in this nationwide prestigious list. The company was also placed in the leader category of 2012 IAOP Global Outsourcing 100 by International Association of Outsourcing Providers (IAOP), its position being the highest among all outsourcing companies in China.

As Chinese enterprises develop their business globally, they become increasingly cognizant of the benefits of IT investment. With expansion of its mainland operations during the period, PCCW Solutions is uniquely positioned to introduce to these enterprises world-class technologies, software, and project management processes delivering high-quality services. In the first half of 2012, PCCW Solutions recorded higher contribution from its mainland business.

In Hong Kong, PCCW Solutions is also a preferred IT partner and data center service provider of enterprise customers due to its ability to offer fully integrated IT platform and application software solutions.

The Hong Kong Government also recognizes the importance of further developing Hong Kong into a regional data center hub to meet the needs of multinational and other corporations. As the existing data center facilities of PCCW Solutions are reaching capacity, it is implementing plans to build two new facilities, which would increase its capacity by about 20%. While completion is expected by the end of this year, these facilities are already almost fully taken up. One of the facilities would involve the conversion of an entire industrial building for high-tiered data center purpose. We have made an application to the authorities for the conversion – which we believe is the first such application to meet the Government's goal of turning existing industrial buildings into data centers.

Sophisticated applications software used to be the privilege of large corporations. However, the increasing adoption of cloud has made it easier for small- and medium-sized enterprises (SMEs) to obtain the right tools to enhance their operations. In June, we invited local and international independent software vendors to offer their applications on PCCW Solutions' secure cloud platform. This initiative, called Enterprise Solutions Superstore Alliance (ESSA), matches software talents with the IT needs of enterprises especially the SMEs.

During the period, PCCW Solutions continued to win contracts from the public and private sectors on system integration and application management, technical services, and business process outsourcing. These included long-term contracts for critical information management systems for a number of government departments, and the supply and installation of radio rebroadcasting system for digital audio broadcasting at 11 government road tunnels.

STEADY GROWTH OF TELECOM BUSINESS

As the majority holder of the share stapled units of HKT Limited and the HKT Trust, PCCW consolidates the financial results of HKT. We are pleased that HKT reported a solid performance in the first half of 2012.

There were encouraging achievements in the mobile segment, which HKT actively promoted during the period, and in the continued growth of its fiber broadband service. Both registered impressive customer number increases and exhibited a strong forward momentum.

The fixed-line and eye businesses continued to contribute a steady and strong cashflow for HKT, while international voice and data connectivity activities on the whole remained robust despite the uncertain environment in some advanced economies.

PACIFIC CENTURY PREMIUM DEVELOPMENTS

In March, Pacific Century Premium Developments (PCPD) announced an offer to repurchase the shares of PCPD and arrangements to enable PCPD to fulfill the minimum public float requirement of the stock exchange.

At a Special General Meeting in May, independent shareholders voted in favor of the offer. The PCPD Board was also authorized to issue bonus shares or bonus convertible notes with a view to increasing the public float. Following the completion of these corporate actions, PCCW remains the majority shareholder of PCPD.

As the Bel-Air project is coming to its closure, PCPD is focusing its efforts on developing two overseas projects in Hokkaido, Japan, and Phang-nga, Thailand.

These two projects are proceeding according to their schedules, and the show house in Niseko, Japan will soon be completed. As for the project in Phang-nga, the master plan is at an advanced stage.

A POSITIVE OUTLOOK

As the leading integrated telecom services provider in Hong Kong, HKT is well positioned to benefit from the increasing demand for high-speed data connections. Barring any unforeseen circumstances, we remain confident that HKT will meet the forecasts for 2012 as disclosed in its listing prospectus.

Our media business will strive to enhance ARPU by providing premium, exclusive content following on from our success with EURO 2012. With our own production and co-production, we are building a library with content that can be distributed to overseas Chinese markets. Discussions are underway with a number of pay-TV operators and distributors.

Moreover, the media business will further leverage the technology capabilities within the Group to expand its customer reach by providing multi-screen viewing options and apps.

PCCW Solutions will look to maintain and expand its leadership position in Hong Kong by providing reliable, end-to-end solutions for its customers. Further resource allocation in China will be considered to service domestic projects as well as support offshore projects. We will also review opportunities arising from the growing demand for data center services and the increasing adoption of cloud computing.

To strengthen its capital structure, PCCW issued a US$300 million bond with a 10-year tenure in April. Being the longest dated unrated senior bond issued by an Asian corporate in 2012 at the time, the issue was highly receptive by the market. We considered it prudent to issue the bond when the US Treasury Note rate was at a low level, because the volatile macro economy especially in Europe had caused ongoing uncertainty about bank liquidity and the debt market.

With a strong financial position underpinned by the solid performance of HKT, we will continue to grow our businesses while prudently examining new opportunities. As the global environment continues to show signs of weakness, management will pay close attention to macro-economic developments. We are cautiously optimistic about PCCW's outlook in the second half barring any sharp decline in economic conditions.

George Chan
Group Managing Director
August 10, 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 the 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.

Mr Chan has over 30 years of experience in the media and technology industries. During his 18 years with Television Broadcasts Limited (TVB) , he was the Assistant Managing Director of TVB and a director of TVBS from 2004 to 2009. As a successful entrepreneur, he was also a director of several companies engaged in media, telecommunications and technology in Hong Kong and overseas. Amongst his career achievements, Mr Chan was involved in founding TVB (USA) Inc. in 1984, STAR-TV in 1990, Pacific Century Group in 1994 and PCCW in 1999.

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 and a member of the Regulatory Compliance Committee of the Board. 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 61, 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. He is also Chairman of the Regulatory Compliance Committee of the Board.

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 and a Non-Executive Director of PineBridge Investments Limited which are asset management companies 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 and Executive Committee.

Mr Lu is an Executive Director and President of China Unicom (Hong Kong) Limited. He is Vice Chairman and President of 中國聯合網絡通信集團有限公司 (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.

For identification only

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 (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust and is a member of HKT's Regulatory Compliance Committee.

Mr Li is an Executive Director and Chief Financial Officer of China Unicom (Hong Kong) Limited (Unicom HK). He is a Director, Vice President and Chief Accountant of 中國聯合網絡通信集團有限公司 (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 a 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.

For identification only

LI Gang

Non-Executive Director

Mr Li, aged 55, 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 a Vice President of 中國聯合網絡通信集團有限公司 (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 a 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 April 2006 to October 2008, he also served as an Executive Director of Unicom HK. 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 中國聯合網絡通信集團有限公司 (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.

WEI Zhe, David

Non-Executive Director

Mr Wei, aged 41, is a Non-Executive Director of PCCW. He was appointed an Independent Non-Executive Director of PCCW in November 2011 and was re-designated to a Non-Executive Director of PCCW in May 2012. He is also a member of 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 (China) Fund I, L.P., 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. Alibaba.com Limited was delisted in June 2012. 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 the 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.

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, Nomination Committee and Regulatory Compliance Committee of the Board.

Sir David is Chairman and Chief Executive of The Bank of East Asia, Limited. He is also a Director of China Overseas Land & Investment Limited, CaixaBank, 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. He was a Director of COSCO Pacific Limited.

Sir David is a member of the Legislative Council of Hong Kong. He is Chairman of The Chinese Banks' Association, Limited, 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 66, 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 was an Independent Non-Executive Director of Emaar MGF Land Limited and an Independent Director on the Supervisory Board of ING Groep N.V., a Netherlands company.

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

Frances Waikwun WONG

Independent Non-Executive Director

Ms Wong, aged 51, was appointed an Independent Non-Executive Director of PCCW in March 2012 and is a member of the Nomination Committee of the Board.

Ms Wong is currently a financial advisor of Good Harbour Finance Limited. She began her career as a management consultant at McKinsey & Company in the United States in 1986. Ms Wong returned to Hong Kong and joined the Hutchison Whampoa group of companies in 1988, taking on various positions. She was managing director of Weatherite Manufacturing Limited, an air conditioning manufacturer. Later, Ms Wong became chief executive officer of Metro Broadcast Corporation Limited. Eventually, she became chief financial officer of Star TV, Asia's first satellite television company. After leaving the Hutchison Whampoa Group in 1992, she became group chief financial officer for the Pacific Century Group. After she resigned from the Pacific Century Group in 1999, she founded the Independent Schools Foundation in Hong Kong.

Ms Wong was educated in the United States at Stanford University where she received a Bachelor of Science degree. She holds a Master of Science degree from the Massachusetts Institute of Technology. Ms Wong was a member of the Central Policy Unit, the Government of the Hong Kong Special Administrative Region (think tank). She has served on many educational boards including the Canadian International School, the Open University of Hong Kong and was a member of the Joint Committee on Student Finance of Student Financial Assistance Agency.

Bryce Wayne LEE

Independent Non-Executive Director

Mr Lee, aged 47, was appointed an Independent Non-Executive Director of PCCW in May 2012. He is a member of the Audit Committee and the Remuneration Committee of the Board.

Mr Lee is a partner of Silver Lake Kraftwerk, an investment strategy that provides growth capital in the energy and resource sectors. Previously, he was a managing director of Credit Suisse Group AG ("Credit Suisse") in the Investment Banking division, serving as head of the Technology Group for the Americas and as co-head of the Alternative Energy Group. Mr Lee was instrumental in building Credit Suisse's investment banking franchises in Asia and in cleantech, and was named to Forbes magazine's "Midas List" of the top 100 technology dealmakers in the world. He was a member of Credit Suisse's Investment Banking Committee and served on the Managing Director Evaluation Committee. Mr Lee has led numerous transactions for industry leaders in the TMT (telecom, media and technology) and cleantech sectors in the United States and globally. Over his 19 years at Credit Suisse, Mr Lee has executed and advised on over US$88.7 billion capital markets and M&A advisory transactions globally for public and private TMT and cleantech companies. Mr Lee holds a Bachelor of Arts degree in Economics and Asian Languages from Stanford University.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Core revenue increased by 1% to HK$11,058 million; consolidated revenue (including PCPD) decreased by 2% to HK$11,906 million
- Core EBITDA increased by 4% to HK$3,670 million; consolidated EBITDA (including PCPD) increased by 2% to HK$3,836 million
- Consolidated profit attributable to equity holders of the Company increased to HK$836 million; basic earnings per share amounted to 11.51 HK cents
- Interim dividend of 5.51 HK cents per ordinary share declared

MANAGEMENT REVIEW

PCCW delivered a sound set of financial results for the first half of 2012, underpinned by the solid performance of the Telecom business (via about 63% interest in HKT Limited and the HKT Trust (collectively, "HKT")) and moderate growth in the Media and Solutions businesses.

Core revenue for the six months ended June 30, 2012 increased by 1% year-on-year to HK$11,058 million, with core EBITDA increasing by 4% year-on-year to HK$3,670 million. Core profit attributable to equity holders, after accounting for about 37% non-controlling interest in HKT following its listing, also increased by 6% to HK$825 million. Assuming that about 37% non-controlling interest in HKT applied in the first half of 2011, core profit attributable to equity holders would have increased by 92% instead.

Revenue and EBITDA contributions from PCPD were lower at HK$848 million and HK$166 million respectively, compared with HK$1,250 million and HK$240 million a year earlier. As a result, consolidated revenue for the six months ended June 30, 2012, decreased by 2% to HK$11,906 million and consolidated EBITDA increased by 2% to HK$3,836 million. Consolidated profit attributable to equity holders of the Company increased modestly to HK$836 million. Basic earnings per share was 11.51 HK cents.

To strengthen its capital structure, PCCW successfully issued a US$300 million 10-year bond in April. At the time, the issue was the longest dated, unrated bond by an Asian corporate in 2012.

The board of Directors (the "Board") has resolved to declare an interim dividend of 5.51 HK cents per ordinary share for the six months ended June 30, 2012.

OUTLOOK

As the leading integrated telecom services provider in Hong Kong, HKT is well positioned to benefit from the increasing demand for high speed data connections. Barring any unforeseen circumstances, we remain confident that HKT will meet the forecasts for 2012 as disclosed in the HKT Global Offering prospectus.

Our Media business will strive to enhance average revenue per user ("ARPU") by providing premium, exclusive content following on from our success with EURO 2012. With our own production and co-production, we are building a library with content that can be distributed to overseas Chinese markets. Discussions are underway with a number of pay TV operators and distributors. Moreover, the Media business will further leverage the technology capabilities within the Group to expand its customer reach by providing multi-screen viewing options and apps.

Our Solutions business will look to maintain and expand its leadership position in Hong Kong by providing reliable, end-to-end solutions for its customers. Further resource allocation in mainland China will be considered to service domestic projects as well as support offshore projects. We will also review opportunities arising from the growing demand for data centre services and the increasing adoption of cloud computing.

With a strong financial position underpinned by the solid performance of HKT, we will continue to grow our businesses while prudently examining new opportunities. As the global environment continues to show signs of weakness, management will pay close attention to macro-economic developments. We are cautiously optimistic about PCCW's outlook in the second half barring any unforeseen circumstances.

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; core profit attributable to equity holders 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 SEGMENT

For the six months ended HK$ million	June 30, 2011	December 31, 2011	**June 30, 2012**	Better/ (Worse) y-o-y
Revenue[4]				
HKT	9,537	10,288	**9,715**	2%
Media Business	1,189	1,518	**1,262**	6%
Solutions Business	1,090	1,119	**1,128**	3%
Other Businesses	35	39	**38**	9%
Eliminations	(915)	(1,388)	**(1,085)**	(19)%
Core revenue	10,936	11,576	**11,058**	1%
PCPD	1,250	876	**848**	(32)%
Consolidated revenue	12,186	12,452	**11,906**	(2)%
Cost of sales	(5,499)	(5,898)	**(5,281)**	4%
Operating costs before depreciation, amortization, and gain/(loss) on disposal of property, plant and equipment, net	(2,912)	(2,744)	**(2,789)**	4%
EBITDA[1,4]				
HKT	3,623	3,788	**3,736**	3%
Media Business	231	400	**217**	(6)%
Solutions Business	157	226	**168**	7%
Other Businesses	(476)	(366)	**(312)**	34%
Eliminations	–	(331)	**(139)**	NA
Core EBITDA[1]	3,535	3,717	**3,670**	4%
PCPD	240	93	**166**	(31)%
Consolidated EBITDA[1]	3,775	3,810	**3,836**	2%
Core EBITDA margin[1]	*32%*	*32%*	***33%***	
Consolidated EBITDA margin[1]	*31%*	*31%*	***32%***	
Depreciation and amortization	(1,962)	(1,987)	**(2,134)**	(9)%
Gain/(Loss) on disposal of property, plant and equipment, net	1	–	**(3)**	NA
Other gains, net	99	44	**12**	(88)%
Interest income	33	38	**27**	(18)%
Finance costs	(763)	(802)	**(469)**	39%
Share of results of associates and jointly controlled companies	(8)	40	**(43)**	(438)%
Profit before income tax	1,175	1,143	**1,226**	4%

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, investment properties and interests in leasehold land.*

Note 4 *In November 2011, the Group 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 period's segment information has been restated to conform with the revised presentation.*

HKT

For the six months ended HK$ million	June 30, 2011	December 31, 2011	**June 30, 2012**	Better/ (Worse) y-o-y
HKT Revenue	9,537	10,288	**9,715**	2%
HKT EBITDA[1]	3,623	3,788	**3,736**	3%
HKT EBITDA margin[1]	*38%*	*37%*	***38%***	

During the first half of 2012, HKT delivered a solid performance across each of its business segments, highlighted by the fast-growing fiber broadband and mobile businesses. This resulted in a strong set of financial results with growth in revenue, EBITDA, net profit and most importantly, adjusted funds flow.

HKT revenue for the six months ended June 30, 2012 increased by 2% year-on-year to HK$9,715 million driven by the steady performance of the Telecommunications Services business and continued growth in the Mobile business. HKT EBITDA during the period was HK$3,736 million, an increase of 3% over the same period in 2011.

HKT's adjusted funds flow for the six months ended June 30, 2012 reached HK$1,430 million, an increase of 6% over the prior period. This represented 56% of the forecast of HK$2,574 million for the 12 months ending December 31, 2012 as provided in the HKT Global Offering prospectus. Adjusted funds flow per share stapled unit was 22.29 HK cents.

For more information about the performance of HKT, please refer to its 2012 interim results announcement released on August 9, 2012.

Media Business

For the six months ended HK$ million	June 30, 2011	December 31, 2011	**June 30, 2012**	Better/ (Worse) y-o-y
Media Business Revenue	1,189	1,518	**1,262**	6%
Media Business EBITDA[1]	231	400	**217**	(6)%
Media Business EBITDA margin[1]	*19%*	*26%*	***17%***	

The Media business continued to demonstrate its operating strength in the first half of 2012. Revenue for the period grew by 6% year-on-year to HK$1,262 million, driven by growth in its overall customer base and further enhancement in ARPU.

now TV continued to extend its leadership in the pay-TV market in Hong Kong by expanding its offering of premium, exclusive content such as EURO 2012 and latest release Hollywood and Asian movies on demand. In addition, the first half of 2012 saw the launch of a number of self-produced and co-produced channels such as now Mango and now Hairun. As of the end of June 2012, now TV produced more than 20 Chinese-language channels in general entertainment, news, sports, music and children's learning. The enrichment of now TV's content offering led to an improvement in ARPU to HK$172 compared with HK$167 a year earlier.

To drive further customer penetration, now TV leveraged the technological capabilities within the Group to devise multi-screen viewing options such as now player and develop popular apps. As a result, now TV recorded a net gain of 77,000 customers with the total installed subscriber base reaching 1.165 million by the end of June 2012, an increase of 7% from a year ago.

EBITDA for the period decreased by HK$14 million year-on-year to HK$217 million, reflecting the investments in our self-produced and co-produced channels, overseas distribution initiatives and initial costs in preparation of the granting of the free-to-air TV licence.

Solutions Business

For the six months ended HK$ million	June 30, 2011	December 31, 2011	**June 30, 2012**	Better/ (Worse) y-o-y
Solutions Business Revenue	1,090	1,119	**1,128**	3%
Solutions Business EBITDA[1]	157	226	**168**	7%
Solutions Business EBITDA margin[1]	*14%*	*20%*	***15%***	

PCCW Solutions made steady progress during the first half of 2012 consolidating its leadership position in the Hong Kong market and expanding its presence in the mainland China market.

Revenue for the six months ended June 30, 2012 edged up 3% year-on-year to HK$1,128 million. The order backlog as at June 30, 2012 grew to approximately HK$5 billion. Significant contract wins in the first half of 2012 included projects for customers in the consumer, retail, property and public sectors.

During the first half of 2012, PCCW Solutions expanded its headcount by over 200 year-on-year to service the growing pipeline in Hong Kong and the mainland China markets.

Benefiting from increased productivity and higher utilization of existing data center infrastructure, EBITDA for the period increased by 7% year-on-year to HK$168 million with the EBITDA margin slightly enhanced to 15% from 14% a year ago.

PCPD

PCPD recorded total revenue of HK$848 million and EBITDA of HK$166 million for the six months ended June 30, 2012, compared with HK$1,250 million and HK$240 million respectively, a year earlier.

During the first half of 2012, PCPD completed a share restructuring that resulted in PCCW holding a voting interest of approximately 74.5% in PCPD and an economic interest of approximately 93.6%.

Regarding the development in Hong Kong, formal agreements for sale and purchase of two houses of Villa Bel-Air were entered into in July 2012, leaving one house unsold at present. The investment property in Beijing, namely Pacific Century Place, enjoyed an average occupancy rate of approximately 66% for the six months ended June 30, 2012.

As for the two overseas projects in Japan and Thailand, they are proceeding in accordance with their respective schedules. The detailed design works of the Hanazono all-season resort project in Hokkaido, Japan has been progressing well, while the master plan of the project in Phang-nga, Thailand has already reached an advanced stage.

For more information about the performance of PCPD, please refer to its 2012 interim results announcement released on August 10, 2012.

Other Businesses

Other Businesses primarily comprise the wireless broadband business in the United Kingdom and corporate support functions. Revenue from Other Businesses was HK$38 million for the six months ended June 30, 2012 (June 30, 2011: HK$35 million), while the cost of the Group's Other Businesses amounted to HK$312 million (June 30, 2011: HK$476 million).

Eliminations

Eliminations for the six months ended June 30, 2012 were HK$1,085 million (June 30, 2011: HK$915 million). 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.

Costs

Cost of Sales

For the six months ended HK$ million	June 30, 2011	December 31, 2011	**June 30, 2012**	Better/ (Worse) y-o-y
The Group (excluding PCPD)	4,743	5,369	**4,801**	(1)%
PCPD	756	529	**480**	37%
Group Total	5,499	5,898	**5,281**	4%

The Group's consolidated total cost of sales for the six months ended June 30, 2012 decreased by 4% to HK$5,281 million mainly due to the lower cost of sales at PCPD. Gross margin increased to 56% from 55% a year ago.

Corresponding to the increase in core revenue, PCCW's core cost of sales also increased to HK$4,801 million for the period. The gross margin of core business remained stable at 57%.

General and Administrative Expenses

During the period as the inflationary environment persisted, the Group focused on enhancing operational efficiency and productivity. As a result, operating costs before depreciation, amortization, and gain/(loss) on disposal of property, plant and equipment dropped by 4% year-on-year to HK$2,789 million. Customer acquisition costs increased in line with business growth, and as a result, depreciation and amortization expenses increased by 9% year-on-year to HK$2,134 million. General and administrative expenses, therefore, increased modestly by 1% year-on-year to HK$4,926 million for the six months ended June 30, 2012.

EBITDA[1]

Solid performance in all core business segments led to an improvement in core EBITDA in the first half of 2012. Core EBITDA for the six months ended June 30, 2012 increased by 4% year-on-year to HK$3,670 million. Together with PCPD EBITDA of HK$166 million, consolidated EBITDA also increased by 2% year-on-year to HK$3,836 million for the period.

Interest Income and Finance Costs

Interest income for the six months ended June 30, 2012 fell to HK$27 million due to a lower average cash balance in the first half of 2012. Finance costs decreased by 39% year-on-year to HK$469 million, primarily due to the interest savings from the US$1 billion 7.75% guaranteed notes due 2011 which was repaid in November 2011. As a result, net finance cost dropped by 39% year-on-year to HK$442 million for the period.

Income Tax

Current income tax expense for the six months ended June 30, 2012 was HK$312 million, as compared to HK$247 million a year ago, mainly due to higher operating profit. During the period, a deferred income tax credit of HK$363 million was recorded mainly due to the utilization and recognition of previously unrecognized tax losses as certain loss-making companies had turned profitable. As a result, the Group recorded a net income tax credit of HK$51 million in the first half of 2012.

Non-controlling Interests

Non-controlling interests of HK$441 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 six months ended June 30, 2012 increased to HK$836 million (June 30, 2011: HK$824 million).

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.

Taking advantage of the favorable fixed income market in April, the Group raised long-term funding of US$300 million through an issue of an unrated 10-year bond. The Group's gross debt[2], therefore, increased to HK$25,882 million as at June 30, 2012 (December 31, 2011: HK$23,592 million). Cash and cash equivalents decreased to HK$4,969 million as at June 30, 2012 (December 31, 2011: HK$5,397 million), mainly due to the repurchase of shares of PCPD during the period. The Group's net debt[2] was HK$20,913 million as at June 30, 2012 (December 31, 2011: HK$18,195 million).

As at June 30, 2012, the Group had a total of HK$27,265 million in committed bank loan facilities available for liquidity management, of which HK$15,422 million remained undrawn. Of these committed bank loan facilities, HKT accounted for HK$20,382 million, of which HK$8,542 million remained undrawn.

The Group's gross debt[2] to total assets was 56% as at June 30, 2012 (December 31, 2011: 51%).

CREDIT RATINGS OF HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

As at June 30, 2012, 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 EXPENDITURE[3]

Group capital expenditure for the six months ended June 30, 2012 was HK$922 million (June 30, 2011: HK$905 million), of which HKT accounted for about 92% for the period (June 30, 2011: 81%). Major outlays for the period were mainly in network expansion and enhancement to meet demand for high-speed broadband fiber services, mobile services 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 June 30, 2012, 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 June 30, 2012, certain assets of the Group with an aggregate carrying value of HK$5,366 million (December 31, 2011: HK$5,476 million) were pledged to secure loans and bank loan facilities of the Group.

CONTINGENT LIABILITIES

HK$ million	As at December 31, 2011 (Audited)	**As at June 30, 2012 (Unaudited)**
Performance guarantee	444	**447**
Others	31	**35**
	475	**482**

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 June 30, 2012, the Group had approximately 19,800 employees (June 30, 2011: 19,800). About two-thirds of these employees work in Hong Kong and the others are based mainly in mainland China, the Philippines and the United States. The Group has established incentive bonus schemes designed to motivate and reward employees at all levels to achieve the Group's business performance targets. Payment of bonuses is generally based on achievement of EBITDA and free cash flow targets for the Group as a whole and for each of the individual business units.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of 5.51 HK cents (June 30, 2011: 5.30 HK cents) per ordinary share for the six months ended June 30, 2012 to shareholders of the Company whose names appear on the register of members of the Company on Friday, September 14, 2012, payable on or around Thursday, October 4, 2012.

CONSOLIDATED INCOME STATEMENT

For the six months ended June 30, 2012

In HK$ million (except for earnings per share)	Note(s)	2011 (Unaudited)	**2012 (Unaudited)**
Turnover	2	12,186	**11,906**
Cost of sales		(5,499)	**(5,281)**
General and administrative expenses		(4,873)	**(4,926)**
Other gains, net	3	99	**12**
Interest income		33	**27**
Finance costs		(763)	**(469)**
Share of results of associates		6	**9**
Share of results of jointly controlled companies		(14)	**(52)**
Profit before income tax	2, 4	1,175	**1,226**
Income tax	5	(292)	**51**
Profit for the period		883	**1,277**
Attributable to:			
Equity holders of the Company		824	**836**
Non-controlling interests		59	**441**
		883	**1,277**
Earnings per share	7		
Basic		11.33 cents	**11.51 cents**
Diluted		11.33 cents	**11.51 cents**

The notes on pages 26 to 35 form an integral part of this unaudited condensed consolidated interim financial information. Details of dividend payable to equity holders of the Company attributable to the profit for the period are set out in note 6.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2012

In HK$ million	2011 (Unaudited)	**2012 (Unaudited)**
Profit for the period	883	**1,277**
Other comprehensive income		
Exchange differences on translating foreign operations	219	**(59)**
Available-for-sale financial assets:		
– changes in fair value	100	**9**
Cash flow hedges:		
– effective portion of changes in fair value	(34)	**(14)**
– transfer from equity to income statement	(29)	**19**
Other comprehensive income/(loss) for the period	256	**(45)**
Total comprehensive income for the period	1,139	**1,232**
Attributable to:		
Equity holders of the Company	1,035	**806**
Non-controlling interests	104	**426**
	1,139	**1,232**

The notes on pages 26 to 35 form an integral part of this unaudited condensed consolidated interim financial information.

CONSOLIDATED AND COMPANY BALANCE SHEETS

As at June 30, 2012

In HK$ million	Note	The Group As at December 31, 2011 (Audited)	The Group As at June 30, 2012 (Unaudited)	The Company As at December 31, 2011 (Audited)	The Company As at June 30, 2012 (Unaudited)
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment		15,477	**15,187**	–	**–**
Investment properties		5,384	**5,337**	–	**–**
Interests in leasehold land		530	**519**	–	**–**
Properties held for/under development		1,105	**1,132**	–	**–**
Goodwill		3,170	**3,171**	–	**–**
Intangible assets		2,812	**3,156**	–	**–**
Investments in subsidiaries		–	**–**	12,089	**12,089**
Interests in associates		402	**486**	–	**–**
Interests in jointly controlled companies		515	**501**	–	**–**
Held-to-maturity investments		2	**1**	–	**–**
Available-for-sale financial assets		575	**601**	–	**–**
Derivative financial instruments		275	**285**	–	**–**
Deferred income tax assets		148	**493**	–	**–**
Other non-current assets		514	**519**	–	**38**
		30,909	**31,388**	12,089	**12,127**
Current assets					
Properties for sale		455	**156**	–	**–**
Amounts due from subsidiaries		–	**–**	17,423	**15,228**
Sales proceeds held in stakeholders' accounts		632	**581**	–	**–**
Restricted cash		735	**1,307**	32	**32**
Prepayments, deposits and other current assets		3,497	**3,991**	10	**40**
Inventories		1,166	**1,206**	–	**–**
Amounts due from related companies		–	**7**	–	**–**
Trade receivables, net	8	3,084	**3,026**	–	**–**
Tax recoverable		7	**2**	–	**–**
Cash and cash equivalents		5,365	**4,937**	87	**1,521**
		14,941	**15,213**	17,552	**16,821**

CONSOLIDATED AND COMPANY BALANCE SHEETS *(CONTINUED)*

As at June 30, 2012

In HK$ million	Note	The Group As at December 31, 2011 (Audited)	The Group As at June 30, 2012 (Unaudited)	The Company As at December 31, 2011 (Audited)	The Company As at June 30, 2012 (Unaudited)
Current liabilities					
Short-term borrowings		(40)	**(3)**	–	**–**
Trade payables	9	(1,777)	**(1,887)**	–	**–**
Accruals and other payables		(4,134)	**(3,323)**	(19)	**(8)**
Amount payable to the Government under the Cyberport Project Agreement		(603)	**(810)**	–	**–**
Carrier licence fee liabilities		(187)	**(242)**	–	**–**
Amounts due to related companies		(27)	**(6)**	–	**–**
Advances from customers		(1,750)	**(1,626)**	–	**–**
Current income tax liabilities		(786)	**(1,069)**	–	**–**
Dividend payable		(1,443)	**–**	(1,443)	**–**
		(10,747)	**(8,966)**	(1,462)	**(8)**
Net current assets		4,194	**6,247**	16,090	**16,813**
Total assets less current liabilities		35,103	**37,635**	28,179	**28,940**
Non-current liabilities					
Long-term borrowings	10	(23,470)	**(25,786)**	–	**–**
Deferred income tax liabilities		(2,222)	**(2,198)**	–	**–**
Deferred income		(893)	**(937)**	–	**–**
Defined benefit liability		(3)	**(3)**	–	**–**
Carrier licence fee liabilities		(815)	**(797)**	–	**–**
Other long-term liabilities		(120)	**(99)**	–	**–**
		(27,523)	**(29,820)**	–	**–**
Net assets		7,580	**7,815**	28,179	**28,940**
CAPITAL AND RESERVES					
Share capital	11	1,818	**1,818**	1,818	**1,818**
Reserves		4,286	**6,669**	26,361	**27,122**
Equity attributable to equity holders of the Company		6,104	**8,487**	28,179	**28,940**
Non-controlling interests		1,476	**(672)**	–	**–**
Total equity		7,580	**7,815**	28,179	**28,940**

The notes on pages 26 to 35 form an integral part of this unaudited condensed consolidated interim financial information.

CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY

For the six months ended June 30, 2012

In HK$ million	The Group 2011 (Unaudited)														The Company 2011 (Unaudited)
	Attributable to equity holders of the Company												Non-controlling interests	Total equity	Total equity
	Share capital	Share premium	Special capital reserve	Capital redemption reserve	Treasury stock	Employee share-based compensation reserve	Currency translation reserve	Hedging reserve	Available-for-sale financial assets reserve	Other reserve	Accumulated losses	Total			
At January 1, 2011	1,818	9,143	11,130	3	(18)	96	909	196	83	(31)	(26,592)	(3,263)	2,655	(608)	30,580
Total comprehensive income for the period	–	–	–	–	–	–	175	(63)	100	(1)	824	1,035	104	1,139	141
Dividend paid in respect of the previous year	–	–	(742)	–	–	–	–	–	–	–	–	(742)	–	(742)	(742)
Dividend paid to non-controlling shareholders of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	(35)	(35)	–
	–	–	(742)	–	–	–	–	–	–	–	–	(742)	(35)	(777)	(742)
At June 30, 2011	1,818	9,143	10,388	3	(18)	96	1,084	133	183	(32)	(25,768)	(2,970)	2,724	(246)	29,979

For the six months ended June 30, 2012

In HK$ million	The Group 2012 (Unaudited)														The Company 2012 (Unaudited)
	Attributable to equity holders of the Company												Non-controlling interests	Total equity	Total equity
	Share capital	Share premium	Special capital reserve	Capital redemption reserve	Treasury stock	Employee share-based compensation reserve	Currency translation reserve	Hedging reserve	Available-for-sale financial assets reserve	Other reserve	Accumulated losses	Total			
At January 1, 2012	1,818	9,143	8,560	3	(18)	96	1,079	154	181	(31)	(14,881)	6,104	1,476	7,580	28,179
Total comprehensive income for the period	–	–	–	–	–	–	(41)	4	7	–	836	806	426	1,232	1,532
Purchase of shares under share award schemes	–	–	–	–	(30)	–	–	–	–	–	–	(30)	(2)	(32)	–
Employee share-based compensation	–	–	–	–	–	6	–	–	–	–	–	6	–	6	–
Final dividend paid in respect of the previous year	–	–	(771)	–	–	–	–	–	–	–	–	(771)	–	(771)	(771)
Dividend declared and paid to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	(116)	(116)	–
Gain arising from distributions in specie of shares in a subsidiary *(note 6(c))*	–	–	–	–	–	–	–	–	–	–	1,625	1,625	(182)	1,443	–
Increase in interests in subsidiaries *(note 17)*	–	–	–	–	–	–	–	–	–	–	747	747	(2,304)	(1,557)	–
Contribution from non-controlling interests of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	30	30	–
	–	–	(771)	–	(30)	6	–	–	–	–	2,372	1,577	(2,574)	(997)	(771)
At June 30, 2012	1,818	9,143	7,789	3	(48)	102	1,038	158	188	(31)	(11,673)	8,487	(672)	7,815	28,940

The notes on pages 26 to 35 form an integral part of this unaudited condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2012

In HK$ million	2011 (Unaudited)	**2012 (Unaudited)**
Net cash generated from operating activities	3,345	**2,437**
Net cash used in investing activities	(1,812)	**(3,828)**
Net cash (used in)/generated from financing activities	(1,499)	**986**
Net increase/(decrease) in cash and cash equivalents	34	**(405)**
Exchange differences	9	**(23)**
Cash and cash equivalents at January 1,	8,101	**5,365**
Cash and cash equivalents at June 30,	8,144	**4,937**
Analysis of the balance of cash and cash equivalents:		
Cash and bank balances	10,085	**6,244**
Bank overdrafts	(8)	**–**
Less: Restricted cash	(1,933)	**(1,307)**
	8,144	**4,937**

The notes on pages 26 to 35 form an integral part of this unaudited condensed consolidated interim financial information.

1 BASIS OF PREPARATION

The unaudited condensed consolidated interim financial information of PCCW Limited (the "Company") and its subsidiaries (collectively the "Group") has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This unaudited condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2011.

This unaudited condensed consolidated interim financial information is presented in Hong Kong dollars, unless otherwise stated. This unaudited condensed consolidated interim financial information was approved for issue on August 10, 2012.

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

The preparation of the unaudited condensed consolidated interim financial information in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses on a year-to-date basis. 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. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The accounting policies and methods of computation used in preparing this unaudited condensed consolidated interim financial information are consistent with those followed in preparing the Group's annual consolidated financial statements for the year ended December 31, 2011, except for the adoption of the following new, revised or amended Hong Kong Financial Reporting Standards ("HKFRSs"), HKASs and Interpretations ("Ints") (collectively "new HKFRSs") which are effective for accounting period beginning on or after January 1, 2012.

The following new HKFRSs are mandatory for the first time for the financial year beginning January 1, 2012, but have no material effect on the Group's results and financial position for the current and prior periods.

– HKFRS 1 (Amendment) Severe hyperinflation and removal of fixed dates for first-time adopters.
– HKFRS 7 (Amendment) Disclosures – Transfers of financial assets.
– HKAS 12 (Amendment) Deferred tax: Recovery of underlying assets.

The Group has not adopted any new HKFRSs that are not yet effective for the current accounting period.

2 SEGMENT INFORMATION

The chief operating decision-maker (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 internal 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 Limited ("HKT") is Hong Kong's premier telecommunications service provider. It provides a range of services including local telephony, local data and broadband, international telecommunications, mobile and other telecommunications businesses such as customer premises equipment sales, outsourcing, consulting, and contact centers. It operates primarily in Hong Kong and maintains a presence in mainland China as well as other parts of 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 the Asia Pacific region.

- 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.

2 SEGMENT INFORMATION *(CONTINUED)*

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

In HK$ million	For the six months ended June 30, 2011 (Unaudited)						
	HKT *(note a)*	Media Business	Solutions Business *(note a)*	Other Businesses *(note a)*	PCPD	Eliminations	Consolidated
REVENUE							
External revenue	9,360	747	799	35	1,245	–	12,186
Inter-segment revenue *(note b)*	177	442	291	–	5	(915)	–
Total revenue	9,537	1,189	1,090	35	1,250	(915)	12,186
RESULTS							
EBITDA	3,623	231	157	(476)	240	–	3,775

In HK$ million	**For the six months ended June 30, 2012 (Unaudited)**						
	HKT	**Media Business**	**Solutions Business**	**Other Businesses**	**PCPD**	**Eliminations**	**Consolidated**
REVENUE							
External revenue	**9,425**	**779**	**821**	**38**	**843**	**–**	**11,906**
Inter-segment revenue *(note b)*	**290**	**483**	**307**	**–**	**5**	**(1,085)**	**–**
Total revenue	**9,715**	**1,262**	**1,128**	**38**	**848**	**(1,085)**	**11,906**
RESULTS							
EBITDA	**3,736**	**217**	**168**	**(312)**	**166**	**(139)**	**3,836**

a. In November 2011, the Group completed an internal reorganization in connection with the global offering of the share stapled units of the HKT Trust and HKT ("Share Stapled Units") and the listing of the HKT Trust and HKT on the Main Board of the Stock Exchange (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 period 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.

2 SEGMENT INFORMATION *(CONTINUED)*

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

In HK$ million	Six months ended June 30, 2011 (Unaudited)	Six months ended **June 30, 2012 (Unaudited)**
Total segment EBITDA	3,775	**3,836**
Gain/(Loss) on disposal of property, plant and equipment, net	1	**(3)**
Depreciation and amortization	(1,962)	**(2,134)**
Other gains, net	99	**12**
Interest income	33	**27**
Finance costs	(763)	**(469)**
Share of results of associates and jointly controlled companies	(8)	**(43)**
Profit before income tax	1,175	**1,226**

3 OTHER GAINS, NET

In HK$ million	Six months ended June 30, 2011 (Unaudited)	Six months ended **June 30, 2012 (Unaudited)**
Net gain on cash flow hedging instruments transferred from equity	21	**6**
Recovery of impairment loss on an interest in a jointly controlled company *(note 16)*	104	**–**
Impairment loss on an interest in a jointly controlled company	(16)	**–**
Others	(10)	**6**
	99	**12**

4 PROFIT BEFORE INCOME TAX

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

In HK$ million	Six months ended June 30, 2011 (Unaudited)	Six months ended **June 30, 2012 (Unaudited)**
Crediting:		
Revenue from properties sold	1,027	**636**
Charging:		
Cost of inventories sold	963	**905**
Cost of properties sold	726	**436**
Cost of sales, excluding inventories and properties sold	3,810	**3,940**
Depreciation of property, plant and equipment	1,329	**1,228**
Amortization of intangible assets	622	**895**
Amortization of land lease premium – interests in leasehold land	11	**11**
Finance costs on borrowings	721	**432**
Staff costs	1,413	**1,277**

5 INCOME TAX

In HK$ million	Six months ended June 30, 2011 (Unaudited)	Six months ended **June 30, 2012 (Unaudited)**
Current income tax:		
Hong Kong profits tax	217	**275**
Overseas tax	30	**37**
Movement of deferred income tax	45	**(363)**
	292	**(51)**

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits for the period. Overseas tax has been calculated on the estimated assessable profits for the period at the rates prevailing in the respective jurisdictions.

6 DIVIDENDS

a. Dividend attributable to the interim period

In HK$ million	Six months ended June 30, 2011 (Unaudited)	Six months ended **June 30, 2012 (Unaudited)**
Interim dividend declared after the interim period of 5.51 HK cents (2011: 5.30 HK cents) per ordinary share	385	**401**

At a meeting held on August 10, 2012, the directors declared an interim dividend of 5.51 HK cents per ordinary share for the year ending December 31, 2012. This interim dividend is not reflected as a dividend payable in this unaudited condensed consolidated interim financial information.

b. Dividends approved and paid during the interim period

In HK$ million	Six months ended June 30, 2011 (Unaudited)	Six months ended **June 30, 2012 (Unaudited)**
Final dividend in respect of the previous financial year, approved and paid during the interim period of 10.60 HK cents (2011: 10.20 HK cents) per ordinary share	742	**771**

c. Special dividend by way of distributions in specie

During the year ended December 31, 2011, the Company 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 Global Offering ("Distributions in Specie"). The Distributions in Specie became unconditional upon the listing of the 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 was 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.

During the six months ended June 30, 2012, the Company settled the Distributions in Specie on the basis of 1 Share Stapled Unit for every integral multiple of 46 ordinary shares of the Company in March 2012 and May 2012, respectively. A total of 316,160,960 Share Stapled Units with an aggregate market value as at the respective dates of the Distributions in Specie of HK$1,839 million were distributed to the eligible shareholders of the Company accordingly.

7 EARNINGS PER SHARE

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

	Six months ended June 30, 2011 (Unaudited)	**June 30, 2012 (Unaudited)**
Earnings (in HK$ million)		
Earnings for the purposes of basic and diluted earnings per share	824	**836**
Number of shares		
Number of ordinary shares at beginning of period	7,272,294,654	**7,272,294,654**
Effect of share purchased from the market under the Company's share award schemes	–	**(6,616,103)**
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	7,272,294,654	**7,265,678,551**

8 TRADE RECEIVABLES, NET

The aging of trade receivables is set out below:

In HK$ million	As at December 31, 2011 (Audited)	**June 30, 2012 (Unaudited)**
0 – 30 days	1,678	**1,671**
31 – 60 days	497	**576**
61 – 90 days	212	**238**
91 – 120 days	132	**239**
Over 120 days	737	**524**
	3,256	**3,248**
Less: Impairment loss for doubtful debts	(172)	**(222)**
	3,084	**3,026**

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.

9 TRADE PAYABLES

The aging of trade payables is set out below:

In HK$ million	As at December 31, 2011 (Audited)	As at **June 30, 2012 (Unaudited)**
0 – 30 days	791	**701**
31 – 60 days	111	**156**
61 – 90 days	55	**71**
91 – 120 days	38	**55**
Over 120 days	782	**904**
	1,777	**1,887**

10 LONG-TERM BORROWINGS

On April 17, 2012, PCCW Capital No.4 Limited, a wholly-owned subsidiary of the Company, issued US$300 million 5.75% guaranteed notes due 2022, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by the Company and will rank pari passu with all other outstanding unsecured and unsubordinated obligations of the Company. The carrying amount of the notes was HK$2,289 million as at June 30, 2012.

11 SHARE CAPITAL

	Number of shares (Unaudited)	**Nominal value (Unaudited) HK$ million**
Authorized:		
Ordinary shares of HK$0.25 each	**10,000,000,000**	**2,500**
Issued and fully paid:		
Ordinary shares of HK$0.25 each		
Balances as at January 1, 2012 and June 30, 2012	**7,272,294,654**	**1,818**

12 SHARE AWARD SCHEMES OF THE COMPANY AND SHARE STAPLED UNITS AWARD SCHEMES OF HKT

Pursuant to the share incentive award schemes of the Company, namely the Purchase Scheme and the Subscription Scheme (collectively "PCCW Share Award Schemes") and the award schemes of HKT 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 Company and HKT have awarded a number of PCCW shares and Share Stapled Units, respectively, to eligible employees of the Company and/or its subsidiaries during the six months ended June 30, 2012.

A summary of movements in the PCCW shares and the Share Stapled Units held under the PCCW Share Award Schemes and the HKT Share Stapled Units Award Schemes respectively during the six months ended June 30, 2012 are as follows:

	Number of PCCW shares (Unaudited)	Number of Share Stapled Units (Unaudited)
As at January 1, 2011, June 30, 2011 and January 1, 2012	**2,519,109**	**–**
Purchase from the market by the trustee at average market price of HK$2.95 per PCCW share/HK$6.07 per Share Stapled Unit	**8,506,470**	**1,158,000**
Share Stapled Units obtained from subscription at the HKT Global Offering	**–**	**71,974**
Share Stapled Units obtained from Distributions in Specie	**–**	**109,526**
As at June 30, 2012	**11,025,579**	**1,339,500**

The average fair values of the PCCW shares and the Share Stapled Units awarded during the six months ended June 30, 2012 at the measurement dates are HK$2.88 per PCCW share and HK$5.98 per Share Stapled Unit respectively, which are measured by the quoted market price of the PCCW shares and the Share Stapled Units at the respective award dates.

13 CAPITAL COMMITMENTS

In HK$ million	As at December 31, 2011 (Audited)	As at June 30, 2012 (Unaudited)
Authorized and contracted for	1,412	**1,580**
Authorized but not contracted for	968	**764**
	2,380	**2,344**

14 CONTINGENT LIABILITIES

In HK$ million	As at December 31, 2011 (Audited)	As at June 30, 2012 (Unaudited)
Performance guarantee	444	**447**
Others	31	**35**
	475	**482**

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.

15 CHARGE ON ASSETS

Security pledged for certain bank loan facilities includes:

In HK$ million	As at December 31, 2011 (Audited)	As at **June 30, 2012 (Unaudited)**
Property, plant and equipment	67	**43**
Investment properties	5,370	**5,323**
Trade receivables	37	**–**
Bank deposit	2	**–**
	5,476	**5,366**

16 RELATED PARTY TRANSACTIONS

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

In HK$ million	Note	Six months ended June 30, 2011 (Unaudited)	Six months ended **June 30, 2012 (Unaudited)**
Telecommunications service fees and facility management service charges received or receivable from a jointly controlled company	a	33	**39**
Telecommunications service fees and systems integration charges received or receivable from a substantial shareholder	a	103	**100**
Telecommunications service fees, outsourcing fees and rental charges paid or payable to a jointly controlled company	a	192	**115**
Telecommunications service fees and facility management service charges paid or payable to a substantial shareholder	a	85	**67**
Key management compensation	b	51	**30**

During the six months ended June 30, 2011, in addition to the above, the Group, Telstra Corporation Limited ("Telstra") and a jointly controlled company of a subsidiary (the "JV") completed certain transactions which resulted in the transfer by the Group and Telstra of the majority of the JV's assets, business platforms and operations. The Group received assets and businesses 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 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. The Group also 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.

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.

16 RELATED PARTY TRANSACTIONS *(CONTINUED)*

b. Details of key management compensation

In HK$ million	Six months ended June 30, 2011 (Unaudited)	Six months ended June 30, 2012 (Unaudited)
Salaries and other short-term employee benefits	50	**29**
Post-employment benefits	1	**1**
	51	**30**

17 TRANSACTIONS WITH NON-CONTROLLING INTERESTS

In HK$ million	Six months ended June 30, 2011 (Unaudited)	Six months ended June 30, 2012 (Unaudited)
Consideration paid to acquire non-controlling interests	–	**1,557**
Less: Carrying amount of non-controlling interests acquired	–	**(2,304)**
Excess of non-controlling interests acquired over consideration paid recognized within equity	–	**(747)**

a. Increase in interests in PCPD

During the six months ended June 30, 2012, PCPD repurchased 824,684,851 of its shares at HK$1.85 each with a total consideration of approximately HK$1,526 million in cash.

The repurchases by PCPD of its shares constituted a deemed acquisition of an additional approximately 32.1% interest in PCPD by the Group from approximately 61.5% to approximately 93.6% for a total net purchase consideration of approximately HK$1,552 million. The total carrying amount of the non-controlling interests acquired in PCPD on the dates of the share repurchases was approximately HK$2,300 million. The Group recognized an increase in equity attributable to the equity holders of the Company of approximately HK$748 million.

In order to maintain its public float, PCPD has offered a 4 for 1 bonus issue to its shareholders where shareholders can accept the bonus shares or elect for non-redeemable bonus convertible notes that are convertible at any time after the issue of such notes to the extent that the minimum public float requirements could be complied with immediately after such conversion with rights to dividends and other distributions similar to ordinary shares. After the completion of the share repurchase and bonus issue, the Group holds approximately 74.5% of the ordinary shares of PCPD and conversion rights to acquire a further approximately 19.1% of ordinary shares of PCPD. As the non-redeemable bonus convertible notes contain rights to dividends and can be converted at any time provided that the public float requirements could be complied with, PCCW would consolidate the results of PCPD on its approximately 93.6% economic interest in accordance with HKFRSs.

b. Increase in interests in PCCW Teleservices (Philippines) Inc. and PCCW Teleservices (US), Inc.

During the six months ended 30 June 2012, the Group acquired an additional 30% and 15% respectively of the issued shares of two subsidiaries of IP BPO Holdings Pte. Ltd., PCCW Teleservices (Philippines) Inc. and PCCW Teleservices (US), Inc., for an aggregate purchase consideration of approximately HK$5 million. The aggregate carrying amount of the non-controlling interests in PCCW Teleservices (Philippines) Inc. and PCCW Teleservices (US), Inc. on the dates of acquisition was approximately HK$4 million. The Group recognized a decrease in equity attributable to the equity holders of the Company of approximately HK$1 million.

c. Distributions in Specie

During the six months ended June 30, 2012, the Company settled the Distributions in Specie (see note 6(c)).

GENERAL INFORMATION

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 June 30, 2012, the directors and chief executives of the Company and their respective associates had the following interests and short positions in the shares, share stapled units, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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	Number of ordinary shares				Number of underlying shares held under equity derivatives	Total	Approximate percentage of issued share capital
	Personal interests	Family interests	Corporate interests	Other interests			
Li Tzar Kai, Richard	–	–	271,666,824 *(Note 1(a))*	1,740,004,335 *(Note 1(b))*	–	2,011,671,159	27.66%
Chan Ching Cheong, George	226,600	–	100,000 *(Note 2(a))*	6,922,000 *(Note 2(b))*	–	7,248,600	0.10%
Lee Chi Hong, Robert	992,600 *(Note 3(a))*	511 *(Note 3(b))*	–	–	5,000,000 *(Note 4)*	5,993,111	0.08%
Sir David Ford	–	–	–	–	1,000,000 *(Note 4)*	1,000,000	0.01%
Tse Sze Wing, Edmund	–	340,000 *(Note 5)*	–	–	–	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 ("Trustee Holding Companies"), which owned all the shares of the trustee companies which acted as trustees of such discretionary trusts and unit trusts. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 36,726,857 shares of the Company held by Yue Shun. With effect from July 16, 2012, Li Tzar Kai, Richard ceased to have any interest in the issued share capital of the Trustee Holding Companies;

   (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 the 154,785,177 shares of the Company held by PCGH;

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)*

(iii) a deemed interest in 1,548,211,301 shares of the Company held by Pacific Century Regional Developments Limited ("PCRD"), a company in which PCGH had, through itself and certain wholly-owned subsidiaries being Anglang Investments Limited, Pacific Century Group (Cayman Islands) Limited, Pacific Century International Limited and Borsington Limited, an aggregate of 75.78% 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 the issued share capital of PCRD through Hopestar Holdings Limited, a company wholly-owned by Li Tzar Kai, Richard. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 1,548,211,301 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 and Li Tzar Kai, Richard owned 100% of the issued share capital of Chiltonlink. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 281,000 shares of the Company held by PBI LLC.

2. (a) These shares were held by Butternut Pacific Resources Limited ("Butternut"), which was 100% owned by Chan Ching Cheong, George.

(b) These interests represented the share awards made by the Company which were subject to certain vesting conditions pursuant to a share award scheme of the Company, namely the Purchase Scheme, the details of which are set out in the section below headed "**Share Option Schemes and Share Award Schemes of the Company and its Subsidiaries**".

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 below headed "**Share Option Schemes and Share Award Schemes of the Company and its Subsidiaries**".

5. These shares were held by the spouse of Tse Sze Wing, Edmund.

6. As at June 30, 2012, 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 and Li Tzar Kai, Richard owned 100% of the issued share capital 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 ("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	–	–	219,573,506 *(Note 1(a))*	125,358,732 *(Note 1(b))*	–	344,932,238	5.38%
Chan Ching Cheong, George	16,326	–	7,205 *(Note 2(a))*	150,478 *(Note 2(b))*	–	174,009	0.003%
Lee Chi Hong, Robert	43,156 *(Note 3(a))*	22 *(Note 3(b))*	–	–	–	43,178	0.0007%
Tse Sze Wing, Edmund	–	208,499 *(Note 4)*	–	–	–	208,499	0.003%
Dr The Hon Sir David Li Kwok Po	143,477	–	–	–	–	143,477	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 Limited ("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, PCD held 17,142,046 Share Stapled Units; and Eisner held 202,431,460 Share Stapled Units.

   (b) These interests represented:

   (i) a deemed interest in 2,646,156 Share Stapled Units held by Yue Shun. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 2,646,156 Share Stapled Units held by Yue Shun;

   (ii) a deemed interest in 11,152,220 Share Stapled Units held by PCGH. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 11,152,220 Share Stapled Units held by PCGH;

   (iii) a deemed interest in 111,548,140 Share Stapled Units held by PCRD. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 111,548,140 Share Stapled Units held by PCRD; and

   (iv) a deemed interest in 12,216 Share Stapled Units held by PBI LLC in the capacity of investment manager. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 12,216 Share Stapled Units held by PBI LLC.

2. (a) These Share Stapled Units were held by Butternut.

   (b) These interests represented a contingent interest in respect of 150,478 Share Stapled Units held on trust for Chan Ching Cheong, George pursuant to a share award scheme of the Company, namely the Purchase Scheme, which were subject to certain vesting conditions.

3. (a) These Share Stapled Units were held jointly by Lee Chi Hong, Robert and his spouse.

   (b) These Share Stapled Units were held by the spouse of Lee Chi Hong, Robert.

4. These Share Stapled Units were held by the spouse of Tse Sze Wing, Edmund.

5. As at June 30, 2012, there was a total of 6,416,730,792 Share Stapled Units in issue.

Save as disclosed in the foregoing, none of the directors or chief executives of the Company or their respective 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 of the Listing Rules as at June 30, 2012.

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"). At the annual general meeting of the Company held on May 19, 2004, the shareholders of the Company approved the termination of the 1994 Scheme and adoption of a new share option scheme (the "2004 Scheme"). Following the termination of the 1994 Scheme 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. Since May 19, 2004, the board of directors of the Company may, at its discretion, grant share options to any eligible person to subscribe for shares of the Company subject to the terms and conditions stipulated in the 2004 Scheme.

Details of the share options outstanding and movements during the six months ended June 30, 2012 are as follows:

(i) 1994 Scheme

(1) Outstanding options as at January 1, 2012 and as at June 30, 2012

Name or category of participant	Date of grant *(Note 1)*	Vesting period *(Note 1)*	Exercisable period *(Note 1)*	Exercise price *HK$*	Number of options Outstanding as at 01.01.2012	Outstanding as at 06.30.2012
Director/Chief Executive						
Lee Chi Hong, Robert	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	5,000,000	5,000,000
Sir David Ford	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	1,000,000	1,000,000
Employees						
In aggregate	05.10.2002	*(Note 2)*	04.11.2003 to 04.11.2012	7.9150	86,700	–
	08.01.2002	08.01.2003 to 08.01.2005	08.01.2003 to 07.31.2012	8.0600	200,000	200,000
	11.13.2002	11.13.2003 to 11.13.2005	11.13.2003 to 11.12.2012	6.1500	5,480,000	5,320,000
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	34,320,538	34,165,538
	09.16.2003	09.16.2004 to 09.16.2006	09.16.2004 to 09.14.2013	4.9000	7,000	7,000
Others	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	1,000,000	1,000,000

(2) Options exercised during the six months ended June 30, 2012

During the period under review, no share options were exercised by any directors or chief executives of the Company, employees of the Company and its subsidiaries (the "Group") or other participants.

(3) Options cancelled or lapsed during the six months ended June 30, 2012

Name or category of participant	Exercise price *HK$*	Number of options cancelled	Number of options lapsed
Employees			
In aggregate	7.9150	–	86,700
	6.1500	–	160,000
	4.3500	–	155,000

(ii) 2004 Scheme

There were no outstanding share options as at January 1, 2012 and June 30, 2012. 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 six months ended June 30, 2012.

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

1. The Company *(continued)*

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 six months ended June 30, 2012, an award in respect of 6,922,000 shares of the Company was made to Chan Ching Cheong, George, a director of the Company, with 4,403,000 shares of the Company purchased from the open market and the rest drawn from previously lapsed shares; and awards in respect of 4,752,470 shares of the Company were made to certain employees of the Company and/or its subsidiaries pursuant to the Purchase Scheme subject to certain vesting conditions, of which 2,151 shares of the Company were lapsed and forfeited. As at June 30, 2012, 11,672,319 shares of the Company granted pursuant to the Purchase Scheme remained unvested. During the six months ended June 30, 2012, no awards however have been made to any employees of the Company and/or its subsidiaries under the Subscription Scheme. As at June 30, 2012, none of the shares granted pursuant to the Subscription Scheme remained unvested. Further details of the two schemes are set out in note 12 to the unaudited condensed consolidated interim financial information.

2. HKT Trust and HKT Limited

A. Share Stapled Units Option Scheme

The HKT Trust and HKT Limited conditionally adopted on November 7, 2011 (the "Adoption Date") 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 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.

No Share Stapled Unit option has been granted under the HKT 2011-2021 Option Scheme since the Adoption Date and up to and including June 30, 2012.

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 incentivise and reward the eligible 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 HKT and its subsidiaries (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. Please refer to the details of the awards made to employees during the six months ended June 30, 2012 which are set out in note 12 to the unaudited condensed consolidated interim financial information.

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

3. Pacific Century Premium Developments Limited ("PCPD")

Share Option Scheme

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

Details of the share options outstanding under the 2003 PCPD Scheme and movements during the six months ended June 30, 2012 are as follows:

2003 PCPD Scheme

(1) Outstanding options as at January 1, 2012 and as at June 30, 2012

Name or category of participant	Date of grant *(Note 1)*	Vesting period *(Note 1)*	Exercisable period *(Note 1)*	Exercise price *HK$*	Number of options: Outstanding as at 01.01.2012	Number of options: Outstanding as at 06.30.2012
Director of PCPD's subsidiary						
In aggregate	12.20.2004	Fully vested on 12.20.2004	12.20.2004 to 12.19.2014	2.375	5,000,000	5,000,000

As at June 30, 2012, the total number of shares of PCPD that might be issued upon exercise of all share options granted and yet to be exercised under the 2003 PCPD Scheme was 5,000,000 shares, which represented approximately 1.26% of the issued share capital of PCPD immediately after the bonus issue of shares and the issue of bonus convertible notes (which took place on June 22, 2012) (the "Bonus Issue") and the share consolidation which became effective on June 25, 2012 (the "Share Consolidation").

There was no adjustment to the number of the outstanding share options or the subscription price of such outstanding options as a result of the recent reorganisation of capital structure of PCPD in relation to the Bonus Issue and the Share Consolidation announced on May 16, 2012. It was certified by Anglo Chinese Corporate Finance, Limited, the financial adviser to PCPD, that adjustments to the subscription price per share of PCPD which might fall to be issued upon the exercise of the aforesaid share options as a result of the Bonus Issue and the Share Consolidation respectively would be net off and would result in no adjustment. For details of the Bonus Issue and the Share Consolidation of PCPD, please refer to the listing document and the circular of PCPD both dated June 4, 2012 and the announcement of PCPD dated June 21, 2012.

(2) Options granted during the six months ended June 30, 2012

During the period 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 six months ended June 30, 2012

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

(4) Options cancelled or lapsed during the six months ended June 30, 2012

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

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

3. Pacific Century Premium Developments Limited ("PCPD") *(continued)*

2005 PCPD Scheme

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

Notes:

1. All dates are shown month/day/year.
2. 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.

Save as disclosed above, at no time during the period under review was the Company or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangement that may enable the directors of the Company to acquire benefits by means of the acquisition of shares, 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 respective spouses or children under 18 years of age had any right to subscribe for equity or debt securities of the Company or any of its associated corporations or had exercised any such right during the period under review.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at June 30, 2012, 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%
中國聯合網絡通信集團有限公司 (China United Network Communications Group Company Limited#) ("Unicom")	*3*	1,343,571,766	18.48%

Notes:

1. These interests represented (i) PCGH's beneficial interests in 154,785,177 shares; and (ii) PCGH's interests (through itself and 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 75.78% of the issued share capital of PCRD) in 1,548,211,301 shares held by PCRD.
2. On April 18, 2004, Li Tzar Kai, Richard transferred the entire issued share capital of PCGH to Ocean Star Management Limited as trustee of The Ocean Unit Trust and The Starlite Unit Trust. The entire issued share capital of Ocean Star Management Limited was held by OS Holdings Limited. The Ocean Trust and The Starlite Trust held all units of The Ocean Unit Trust and The Starlite Unit Trust respectively. Star Ocean Ultimate Limited was the discretionary trustee of The Ocean Trust and The Starlite Trust.
3. Unicom indirectly held these interests through its indirect wholly-owned subsidiary, China Netcom Corporation (BVI) Limited.
4. As at June 30, 2012, the Company had a total of 7,272,294,654 shares in issue.

For identification only

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

As at June 30, 2012, 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	*Note*	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, underlying shares or debentures of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at June 30, 2012.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended June 30, 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

AUDIT COMMITTEE

The Company's Audit Committee has reviewed the accounting policies adopted by the Group and the unaudited condensed consolidated interim financial information of the Group for the six months ended June 30, 2012. Such condensed consolidated interim financial information has not been audited but has been reviewed by the Company's independent auditor.

MODEL CODE SET OUT IN APPENDIX 10 TO THE LISTING RULES

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

CORPORATE GOVERNANCE PRACTICES

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

The Company has applied the principles and complied with all relevant code provisions of the Code on Corporate Governance Practices (the "Former CG Code") as set out in Appendix 14 to the Listing Rules during the period from January 1 to March 31, 2012. On April 1, 2012, the Former CG Code was amended and renamed as the Corporate Governance Code (the "New CG Code"). The Company has also complied with all relevant code provisions of the New CG Code during the period from April 1 to June 30, 2012, except that one of the independent non-executive directors was unable to attend the annual general meeting of the Company held on May 3, 2012 (as provided for in Code Provision A.6.7) as he was engaged in other unavoidable matters. In respect of Code Provision D.1.4, the board of directors of the Company has approved in May 2012 the formal letters of appointment for directors setting out the key terms and conditions of their appointment which were subsequently executed by all directors of the Company.

INVESTOR RELATIONS

FINANCIAL CALENDAR

Announcement of 2012 Interim Results	August 10, 2012
Closure of register of members	September 13-14, 2012 (both days inclusive)
Payment of 2012 interim dividend	On or around October 4, 2012
Announcement of 2012 Annual Results	February 2013

DIRECTORS

The directors of the Company as at the date of the announcement of the 2012 Interim 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
Wei Zhe, David

Independent Non-Executive Directors:
Dr The Hon Sir David Li Kwok Po, GBM, GBS, OBE, JP
Aman Mehta
Frances Waikwun Wong
Bryce Wayne Lee

INTERIM REPORT 2012

This Interim Report 2012 in both English and Chinese is now available in printed form from the Company and the Company's Share Registrar, 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 Interim Report 2012 using electronic means through the website of the Company may request a printed copy, or
B) received the Interim Report 2012 in either English or Chinese may request a printed copy of the other language version

by writing or sending email to the Company c/o the Company's Share Registrar 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 (or are deemed to have agreed) to receive the corporate communications of the Company (including but not limited to the Interim Report 2012) using electronic means through the Company's website and who, for any reason, have difficulty in receiving or gaining access to the Interim Report 2012 will promptly, upon request in writing or by email to the Company's Share Registrar, be sent the Interim Report 2012 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 Registrar.

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 subsidiaries of the Company are listed on the Luxembourg Stock Exchange and the Singapore Exchange Securities Trading Limited respectively.

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

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

STOCK CODES

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

SHARE INFORMATION

Board lot:	1,000 shares
Issued shares as at June 30, 2012:	7,272,294,654 shares

DIVIDEND

Interim dividend per ordinary share for the six months ended June 30, 2012:

Interim dividend per ordinary share	5.51 HK cents

REGISTRAR

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

ADR DEPOSITARY

Citibank, N.A.
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

GROUP COMPANY SECRETARY

Philana WY Poon
(Subsequent to the date of the announcement of 2012 Interim Results, Philana WY Poon was appointed as the Group Company Secretary of the Company with effect from August 11, 2012)

REGISTERED OFFICE

38/F, Citibank Tower
Citibank Plaza, 3 Garden Road
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INVESTOR RELATIONS

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Email: ir@pccw.com

WEBSITE

www.pccw.com

Forward-Looking Statements

This interim report contains forward-looking statements. These forward-looking statements include, without limitation, statements relating to revenues and earnings. The words "believe", "intend", "expect", "anticipate", "project", "estimate", "predict", "is confident", "has confidence" and similar expressions are also intended to identify forward-looking statements. These forward-looking statements are not historical facts. Rather, the forward-looking statements are based on the current beliefs, assumptions, expectations, estimates and projections of the directors and management of PCCW about the business, industry and markets in which we operate.

These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and are difficult to predict. Consequently, actual results could differ materially from those expressed, implied or forecasted in the forward-looking statements. Factors that could cause actual results to differ materially from those reflected in the forward-looking statements include:

- our ability to execute our business strategy to expand our businesses locally and overseas, including entering into business combinations, strategic investments and acquisitions;
- our ability to develop our growth businesses in media and IT services after the spin-off of the telecommunications business into HKT;
- possible negative effects of potentially new regulatory developments;
- increased competition in the Hong Kong media market and the IT services market;
- increased content costs, changes in customer viewing habits or changes in technology;
- increased competition in the Hong Kong telecommunications market;
- our ability to obtain additional capital;
- our ability to implement our business plan as a consequence of our substantial debt; and
- our exposure to interest rate risk.

Reliance should not be placed on these forward-looking statements, which reflect the views of the directors and management of PCCW as at the date of this interim report only. We undertake no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after publication of this interim report.

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