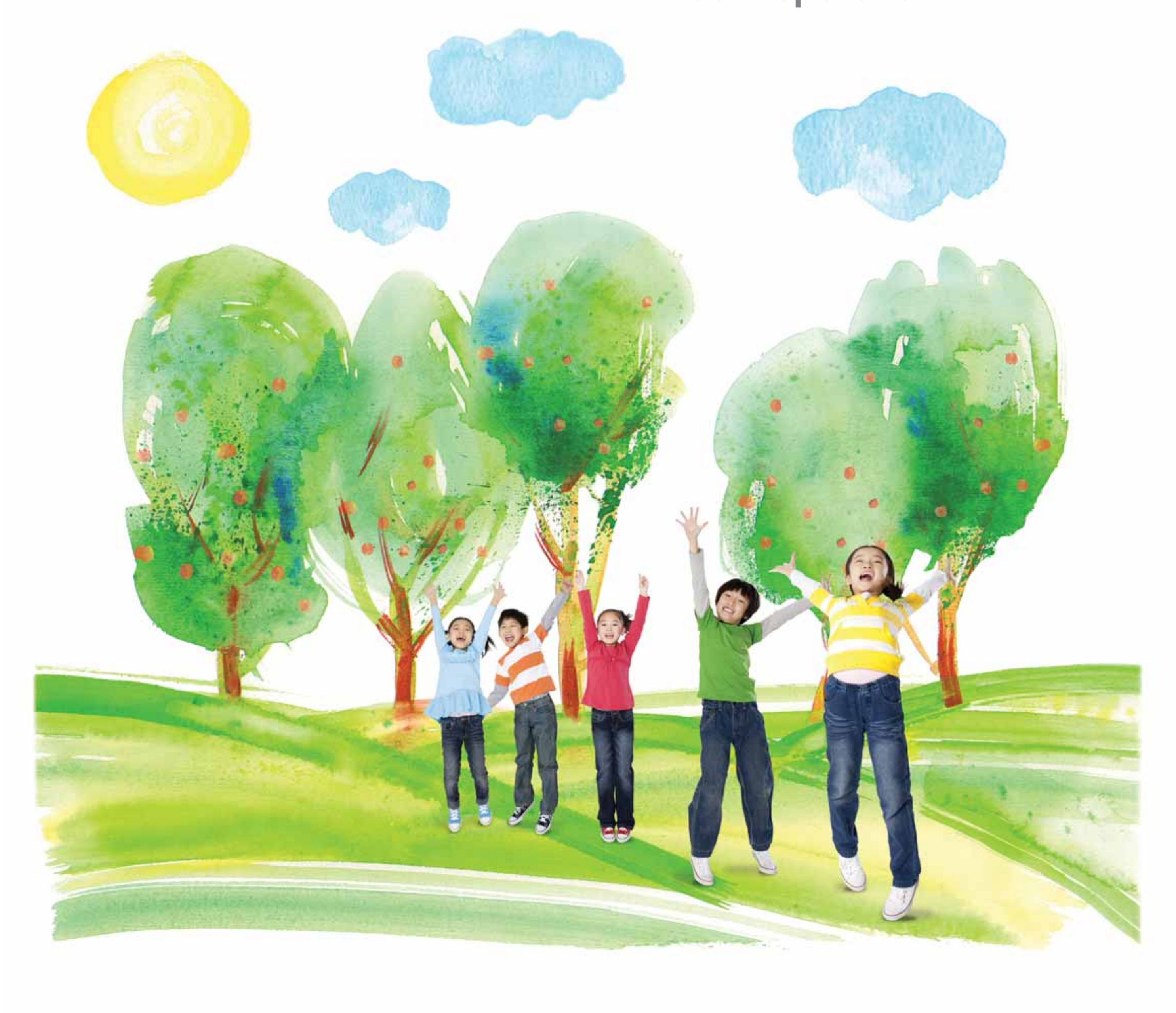
Annual Report 2012 Stock Code: 0008



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 20,900 staff, PCCW maintains a presence in Hong Kong, mainland China as well as other parts of the world.

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

SIGNIFICANT EVENTS IN 2012

FEBRUARY

now TV and three other major local and mainland media players form a joint venture to launch the now Popcorn Movie Channel.

PCCW announces solid financial results and higher full-year dividend for the year ended December 31, 2011.

MARCH

Ms. Frances Waikwun Wong is appointed as an Independent Non-Executive Director of PCCW.

MAY

HKT launches its 4G LTE mobile network.

Mr. Bryce Wayne Lee is appointed as an Independent Non-Executive Director of PCCW.

JUNE

PCCW Solutions introduces, Enterprise Solutions Superstore Alliance, a cloud platform where enterprises can obtain applications from independent software vendors.

now TV broadcasts the UEFA EURO 2012 exclusively in Hong Kong.

AUGUST

PCCW delivers interim financial results for 2012, demonstrating solid performance of the telecom business and growth in the media and IT solutions businesses.

SEPTEMBER

The first PCCW-HKT Flagship Shop, located in Mongkok, is unveiled. A Central Signature Store opens in February 2013.

OCTOBER

A major milestone achieved as now TV signs its first international content distribution deal with Telekom Malaysia.

NOVEMBER

PCCW Solutions acquires Vanda China, a leading banking software vendor in mainland China.

now TV wins the exclusive multi-screen rights to broadcast in Hong Kong the Barclays Premier League for three seasons from the 2013/14 season.

Mr. Lars Eric Nils Rodert is appointed as an Independent Non-Executive Director of PCCW.

DECEMBER

now TV enters into an agreement with Cable Thai Holding Public Company Limited to distribute three channels on the latter's pay-TV platform.

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

AWARDS

Award	Awardee	Scheme Organizer
Best of IT Awards My Favourite IPTV Service Award	now TV	PC Market
BSI Excellence Award Excellence in Information Security Management	PCCW Solutions	BSI
Caring Company Caring Company Logo	PCCW	The Hong Kong Council of Social Service
China Software and Information Service, 2012 Outstanding Outsourcing Enterprise Award	PCCW Solutions	China Center for Information Industry Development (CCID) Group
2011 China Software Export and Service Outsourcing Ranking List No. 1 in 2011 Top 20 China Service Outsourcing Enterprises 2011 China Software and Service Outsourcing Brand Stars	PCCW Solutions	China Software & Services Outsourcing Network
Cloud Power 2012 Software-as-a-service category – Up and Coming	PCCW Solutions	Computerworld Hong Kong and Asia Cloud Forum
Distinguished Salesperson Award Outstanding Young Salesperson Award	One Advertising & Interactive Services staff member	Hong Kong Management Association
e-brand Awards 2012 Best Data Center Best IPTV	PCCW Solutions now TV	e-Zone
InfoVision Awards Asia Media Innovation of the Year	PCCW	Broadband-IP&TV Asia
Media Convergence Awards 2012 TV Category – Silver Award	now TV	Hong Kong Association of Interactive Marketing (HKAIM)
MIS Strategic 100, 2012 Top 20 Regional IT Companies	PCCW Solutions	MIS Asia
Outstanding ICT Achiever Awards 2012 Outstanding ICT Achiever Awards (Project Management) Outstanding Youth ICT Achiever Awards Outstanding ICT Achiever Awards (Sales/Marketing/Business Development)	PCCW Solutions	Hong Kong Computer Society
SMB World Award, 2012 Best Consulting & Systems Integration Service	PCCW Solutions	SMB World
Social Capital Builders Award	PCCW	Community Investment and Inclusion Fund
Special Contribution Enterprise Award	PCCW Solutions	Xi'an Software Park
TOUCH Brands 2012	now TV	East Touch

KEY FIGURES

FINANCIAL HIGHLIGHTS

For the year ended December 31, 2012
In HK$ million (except for per share data)

	2011	**2012**
Turnover		
Core revenue*	22,512	**24,134**
PCPD	2,126	**1,184**
	24,638	**25,318**
Cost of sales	(11,397)	**(11,816)**
General and administrative expenses	(9,604)	**(10,148)**
Other gains, net	143	**371**
Interest income	71	**62**
Finance costs	(1,565)	**(966)**
Share of results of associates	44	**31**
Share of results of jointly controlled companies	(12)	**(53)**
Profit before income tax	2,318	**2,799**
Income tax	(542)	**(232)**
Profit for the year	1,776	**2,567**
Attributable to:		
Equity holders of the Company	1,607	**1,663**
Non-controlling interests	169	**904**
Earnings per share (in HK cents)		
Basic	22.10	**22.90**
Diluted	22.10	**22.90**
Dividends per share (in HK cents)		
Interim dividend	5.30	**5.51**
Final dividend proposed after the balance sheet date	10.60	**13.55**
EBITDA[1]		
Core EBITDA*	7,252	**7,681**
PCPD	333	**107**
	7,585	**7,788**

*Note: Please refer to page 24. Note 1: Please refer to page 26.

STATEMENT FROM THE CHAIRMAN

Last year we began with a note of caution about the uncertain economic outlook in Hong Kong. Not helped by the fiscal cliff concerns in the U.S. and the continued eurozone weakness albeit some stabilization of its debt crisis, Hong Kong concluded 2012 with only marginal growth.

Despite the challenging environment, core businesses of PCCW last year held up well to post solid and healthy operational results, contributing to an overall satisfactory financial performance for the group for 2012.

now TV continued to record higher customer number and ARPU. Following our exclusive UEFA EURO 2012 broadcast, we are bringing back the Barclays Premier League from the 2013/14 season. We took a disciplined approach in bidding for the exclusive Hong Kong broadcast rights for TV and other screens such as mobile devices, and are confident that this would further enhance customer growth, ARPU and operational results.

As our self-produced and co-produced programs gain market recognition, we have made some inroads in our international expansion plan, with distribution agreements already signed with several overseas TV operators and ongoing discussions with others.

PCCW Solutions continued to benefit from the growing adoption of cloud applications in the public and private sectors. It enhanced its service portfolio and substantially raised its data center capability to meet customer demand. Coupled with its leading edge in mission-critical IT systems including core enterprise systems, PCCW Solutions recorded a double-digit year-on-year growth in the value of contracts secured.

In November, PCCW Solutions acquired a banking and finance solutions vendor in mainland China, which has greatly increased its ability to address the dynamic needs of customers in this segment.

HKT, which saw a significant increase in the value of its share stapled units last year, delivered a set of results that once again exceeded the listing forecasts. This reflects HKT's successful execution of its strategies, in particular its efforts to grow the fiber broadband business and to capture more higher-end customers, as well as its initiatives to build the mobile business.

To reinforce recognition of our brand, HKT last year began to rejuvenate its retail outlets and has since opened a PCCW-HKT Flagship Shop in Kowloon and a Signature Store in Central. The shops are ideal for showcasing our expanding array of businesses including the new home automation solutions service.

On property, Pacific Century Premium Developments' last residential units in Bel-Air were sold out during the year. The project has come to a successful ending, marking a new development phase of the company. In addition to focusing on our overseas projects in Phang-nga, Thailand and Hokkaido, Japan, we strive to identify premium property and related projects with development potential, as well as other investment opportunities, in Hong Kong, mainland China, Southeast Asia and other cities around the world.

Early into 2013, the pace of economic growth in Hong Kong continues to be hesitant, while overseas sentiments have not significantly improved. Our strategy is to continue to capitalize on the excellent fundamentals of our core businesses and the momentum gained in the past year, while cautiously reviewing investment opportunities.

During the year, the Board appointed Ms. Frances Waikwun Wong, Mr. Bryce Wayne Lee, and Mr. Lars Eric Nils Rodert as independent non-executive directors. I am confident that all members of the Board and the PCCW team will continue to work hard towards the objective of maximizing the value of PCCW for shareholders.

Richard Li
Chairman
February 27, 2013

It is my pleasure to report that PCCW recorded a strong performance for the year ended December 31, 2012 as good operational results were achieved by the group's core businesses comprising media, IT solutions, and telecommunications. The following review outlines the main achievements and the outlook of the various segments.

MEDIA SEGMENT POISED FOR NEXT PHASE OF GROWTH

now TV registered continued increase in customer number and ARPU (average revenue per user) last year based on its top-notch programming, innovative services and leadership position in the pay-TV market. At the end of 2012, its subscription base exceeded 1.18 million.

We continued to enrich now TV's program lineup with our self-produced and co-produced channels, as well as other premium content in sports, movies and other popular genres. One of the program highlights was our exclusive broadcast of UEFA EURO 2012, which enabled us to further increase our penetration among the sports viewing customer segment and advertisers.

In 2013, we will celebrate the return of the Barclays Premier League (BPL) to now TV, following our successful bid last November for the exclusive multi-screen rights in Hong Kong for three seasons commencing from the 2013/14 season. BPL will further strengthen our program lineup and market leadership, and we are confident that this will help push up ARPU over our 1.18 million subscriber base and attract new subscribers. We believe this will make now TV a clear leader in the Hong Kong pay-TV market, and enhance our brand value and improve long-term profitability.

Following the launch of our new sports offer in January 2013, we have already seen early and good momentum in customer subscriptions take-up as well as existing sports subscribers upgrading to a higher-value sports pack.

BPL is one of the most prestigious soccer leagues in the world, and to successfully regain the rights is a demonstration of our commitment to bringing top-class sports content to our customers with superior viewing quality. To enrich user experience, BPL will be available on platforms of PCCW's unique quadruple-play services including Internet, eye and mobile.

Since late 2011, we have been developing mobile apps to expand our customer reach. Having accumulated more than 1.4 million downloads, our apps such as the now Player and now News are consistently among the most popular apps in Hong Kong. We continue to expand and populate our TV Everywhere service now Player with more content including at present more than 30 live streaming channels. Customers can also access on tablets and other smart devices more than 1,500 hours of on-demand programs of various genres.

One of the stated objectives of our media business has been to expand the distribution of our self-produced and co-produced content and channels to the Chinese communities in other countries. I am pleased to report that we have made some inroads in this area as our programs have gained market recognition.

At the end of last year, PCCW Media launched three premium channels – now International, now Mango and now Hairun – on Telekom Malaysia (TM)'s IPTV service, HyppTV. now TV also licensed multi-platform rights to TM, so that HyppTV customers may enjoy the service via Internet and mobile devices. PCCW Media also entered into an agreement with Cable Thai Holding Public Company Limited (CTH) to distribute three now-branded channels on CTH's pay-TV platform.

More recently, we have signed a content licensing and distribution agreement with DISH Network in the U.S. These collaborations are testimony to our strength in producing and delivering premium content across multiple platforms. We continue to have discussions with operators in various other markets with a view to delivering our quality productions to the growing Chinese-speaking markets around the globe.

PCCW SOLUTIONS CONTINUES TO PROSPER

PCCW Solutions experienced another impressive year benefiting from the increasing trend for enterprises to outsource their core IT requirements and its reputation as one of the leading providers of IT services in Hong Kong and mainland China. PCCW Solutions now has 3,300 professionals in Hong Kong and in seven cities across mainland China to deliver mission critical IT systems to government bodies as well as enterprise customers across a diverse range of industries. As a result, PCCW Solutions' secured order book swelled 18% from a year ago to US$713 million at the end of 2012.

To support its business growth and customer demand, PCCW Solutions has significantly expanded its data centre capacity and secured additional space for further expansion. These new facilities involve the conversion of existing industrial buildings which will enable faster availability for service, demonstrating PCCW Solutions' ability to quickly respond to customer demand when it arises.

To expand its capabilities, PCCW Solutions acquired Vanda China, a core banking software provider in mainland China. Vanda China owns two software product lines that are widely recognized as the leading banking applications in the domestic market, and the transaction complements PCCW Solutions' offerings in the banking and financial sector.

In addition, the acquisition has provided access to an extensive customer base of more than 100 installations, which support over 40,000 branches including a 3,500-branch network. More than 500 million accounts and 150 million daily transactions nationwide run on Vanda's software solutions. Our geographical coverage has also been expanded by Vanda China's delivery centers in Beijing, Shanghai, Wuhan, Changchun, Guangzhou and Shenzhen, which support businesses in over 20 provinces. A pool of over 300 professionals with solid industry knowledge and experience has been integrated into the PCCW Solutions team providing us with the opportunity to cross-sell our other services.

In June, PCCW Solutions introduced an online apps platform, Enterprise Solutions Superstore Alliance (ESSA), where independent software vendors make available their applications on our secure platform to small- and medium-sized enterprises who may then obtain affordable software to enhance their operations such as customer engagement and supply chain management. This platform has been cited in a recent award by Computerworld Hong Kong and Asia Cloud Forum's Cloud Power 2012, which identifies PCCW Solutions as one of the region's most forward-thinking and significant cloud technology providers.

A STRONG TELECOM BASE

As the majority holder of the share stapled units of HKT Limited and the HKT Trust, PCCW consolidates the financial result of HKT. We are pleased to report that HKT exceeded the financial targets for 2012 as set out in its listing prospectus.

During the year, HKT launched a number of initiatives to strengthen its existing businesses and to roll out new services. The extension of its fiber network – the largest in Hong Kong – to more premium residential areas has gained additional customers who are willing to pay more for better services. The number of NETVIGATOR customers enjoying fiber-to-the-home (FTTH) service more than doubled by the end of 2012 when compared with a year ago.

Mobile service is a growth engine in this era of data communication. Since HKT's 4G LTE network was launched in the first half of 2012, new customer in-take and customer upgrades have been encouraging. We have continued to enhance network coverage – having completed our fiber-backed 4G network along major MTR lines early this year.

To rejuvenate our retail presence, we have opened new PCCW-HKT shops including a Signature Store in Central and a Flagship Shop in Kowloon. The Smart Living home automation service is one of the attractive features of the new shops.

Telecom services to the business and public sector recorded a satisfactory year despite the generally sluggish economy. International connectivity business undertaken by PCCW Global also performed well due to growing demand. During the year, PCCW Global enhanced its ability to service the European market and the rapidly expanding trade corridor between Asia and Africa.

A NEW PHASE FOR PROPERTY PROJECTS

Pacific Century Premium Developments (PCPD) sold all the remaining houses at Villa Bel-Air during the period under review. With the completion of the Bel-Air project, PCPD now focuses on its two overseas development projects in Japan and Thailand, and will explore other development and investment opportunities. Design work for the first phase of the Hanazono all-season resort in Hokkaido, Japan is continuing. Meanwhile, planning for the project in Phang-nga, southern Thailand, also made good progress and has reached a very advanced stage.

For each of the above-mentioned projects, the investment scale is substantial and hence it would take considerable time before the project would generate any revenue. However, we trust that these premium-grade resort projects would attract positive responses from clients once they are marketable. Pacific Century Place in Beijing continues to be PCPD's major source of income prior to the completion of other projects.

PRUDENTLY GROWING THE BUSINESS

In 2013, now TV is celebrating its 10th anniversary. It has grown to become the largest and most acclaimed pay-TV operator in Hong Kong. Going forward, now TV is committed to strengthening its program lineup with more high-quality production and premium content acquisitions, which will be complemented by its multi-screen strategy. Following initial success in overseas distribution of our content, we are currently engaged in discussions with more potential partners. now TV will leverage PCCW Solutions' IT competencies and HKT's network superiority to reinforce its market leadership in Hong Kong and develop into a renowned player in the region and internationally.

PCCW Solutions has an impeccable track record in serving the IT needs of enterprises and the public sector where system reliability is of utmost importance. It will benefit from the accelerating pace of IT outsourcing and the proliferation of cloud applications. To meet this rising demand, we have significantly expanded our data center facilities. The acquisition of Vanda China has enriched our suite of solutions for the banking and finance sector with the addition of two leading software applications, at the same time widening our customer base in mainland China. In the longer-run, PCCW Solutions aims to enhance Vanda's software and export it to the international market. PCCW Solutions will continue to identify opportunities to expand its presence in new industries and new geographies.

For HKT, fiber broadband and mobile service will remain the key growth impetus in 2013, while the fixed-line telephony business provides a steady revenue and a strong cash flow. Meanwhile, the global connectivity business commands considerable development potential following the extension of its footprint in Europe and Africa.

As we take steps to elevate our businesses to a new level in Hong Kong and beyond, we will act with caution amid the uncertain global economic outlook. Management is confident that the PCCW team will work diligently and in the best interest of our shareholders, and we are cautiously optimistic about the prospects for 2013.

George Chan
Group Managing Director
February 27, 2013

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

LI Tzar Kai, Richard

Chairman

Mr Li, aged 46, was appointed an Executive Director and the 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, the Chairman and an Executive Director of Singapore-based Pacific Century Regional Developments Limited (PCRD), and the Chairman of PCRD's Executive Committee.

Mr Li is a Non-Executive Director of The Bank of East Asia, Limited. He is also a member of the Center for Strategic and International Studies' International Councillor's Group in Washington, D.C., and 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 60, 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 48, was appointed an Executive Director of PCCW in May 2010. She is a member of the Executive Committee and 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, the 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.

Mr Lee is a member of the International Council of the Louvre as well as Ambassador for the Louvre in China.

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 78, 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 75, is a Non-Executive Director of PCCW. He was an Independent Non-Executive Director of PCCW from September 2009 to March 2011 and was re-designated to a Non-Executive Director of PCCW in March 2011. He is also the 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 (now known as AIA 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 49, 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 50, 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.

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 42, 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 Remuneration Committee, the Nomination Committee and the Regulatory Compliance Committee of the Board.

Sir David is the 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 the 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. He was a member of the Legislative Council of Hong Kong.

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) Limited 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 of Hong Kong, 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 48, was appointed an Independent Non-Executive Director of PCCW in May 2012 and 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.

Lars Eric Nils RODERT

Independent Non-Executive Director

Mr Rodert, aged 51, was appointed an Independent Non-Executive Director of PCCW in November 2012 and is a member of the Audit Committee of the Board.

Mr Rodert has served as a director of Brookfield Infrastructure Partners L.P.'s Managing General Partner since December 2010. He is a Senior Portfolio Manager for Inter IKEA Treasury in North America and Europe. Prior to this role, he was most recently Chief Investment Officer, Global Equities, at SEB Asset Management and prior to that he was Head of North American Equities at the same firm. Based in Belgium, Mr Rodert has an in depth knowledge of continental European markets and is seasoned in analyzing investment opportunities. He holds a Bachelor of Arts degree from Stockholm University, with a major in finance.

CORPORATE GOVERNANCE REPORT

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

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

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

The Corporate Social Responsibility Policy sets out standards for the way in which we should conduct our business to enhance its positive contribution to society and the environment.

CORPORATE STRATEGY

PCCW, in conjunction with its listed subsidiary HKT Limited ("HKT"), offers Hong Kong's only integrated quadruple-play service with market leading positions in the fixed-line, broadband Internet and pay-TV businesses, as well as a rapidly growing mobile business. PCCW also owns one of the leading IT solutions providers in Hong Kong and mainland China, as part of its core business. PCCW's strategy for generating and preserving shareholder value is to invest prudently in its technology and service platforms to ensure that its fixed-line business remains the market leader, its broadband offering delivers increasingly fast connectivity and its mobile network coverage and speed continuously improve – and overall to invest in our people to continuously improve the quality of service that PCCW provides to its customers. PCCW also invests prudently in innovative new technology and attractive content offerings for its highly successful now TV service and to develop the scale and capabilities of its IT solutions business. PCCW generates and preserves value by investing in these businesses and pursuing growth opportunities. Its strategy is to continue to develop the growth businesses (IT solutions and TV & new media) which are wholly-owned by PCCW and to maintain its majority ownership of HKT.

CORPORATE GOVERNANCE PRACTICES

PCCW has applied the principles and complied with all relevant code provisions of the Code on Corporate Governance Practices (the "Former CG Code") during the period from January 1 to March 31, 2012 and the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the period from April 1 to December 31, 2012, except that one of the independent non-executive directors of the Company 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, in May 2012, the board of directors of PCCW approved 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 PCCW.

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

Having made specific inquiries of all directors of the Company, confirmations have been received of compliance with the required standard set out in the Model Code and the PCCW Code during the accounting period covered by this annual report.

The directors' and chief executives' interests and short positions in shares, share stapled units, underlying shares, underlying share stapled units and debentures of the Company and its associated corporations are disclosed in the Report of the Directors on pages 32 to 51 of this annual report.

BOARD OF DIRECTORS

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

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

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

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

The directors acknowledge their responsibility for preparing the financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and the Group and of the profit and cash flows of the Group for the year in accordance with Hong Kong Financial Reporting Standards, the Hong Kong Companies Ordinance and the Listing Rules. In preparing the financial statements for the year ended December 31, 2012, the directors have selected suitable accounting policies and applied them consistently; made judgements and estimates that are prudent and reasonable; stated the reasons for any significant departure from applicable accounting standards in Hong Kong; and have prepared the financial statements on a going-concern basis. The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position, results of operations, cash flows and changes in equity of the Group. The statement of the external auditor of the Company relating to its reporting responsibilities on the financial statements of the Company is set out in the Independent Auditor's Report on page 52 of this annual report.

As at the date of this report, the Board is comprised of 15 directors including four executive directors, six non-executive directors and five independent non-executive directors. At least one-third of the Board are independent non-executive directors and at least one of them has appropriate professional qualifications, or accounting or related financial management expertise. Biographies of all the directors are set out on pages 9 to 13 of this annual report. The relationships (including financial, business, family or other material or relevant relationships), if any, among members of the Board have also been disclosed in the Report of the Directors of this annual report.

The Company has arranged appropriate directors and officers liability insurance cover for its directors and officers.

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

The Board held four meetings in 2012. The annual general meeting of the Company was held on May 3, 2012 with the attendance of the external auditor to answer questions.

BOARD OF DIRECTORS *(CONTINUED)*

The attendance of individual directors at the Board, the Board committee meetings and the annual general meeting held in 2012 is set out in the following table:

	Meetings attended/eligible to attend in 2012 *(Note 1)*				
Directors	Board	Audit Committee	Nomination Committee	Remuneration Committee	Annual General Meeting
Executive Directors					
Li Tzar Kai, Richard *(Chairman of the Board)*	4/4	N/A	3/3	N/A	1/1
Chan Ching Cheong, George *(Group Managing Director)*	4/4	N/A	N/A	N/A	1/1
Hui Hon Hing, Susanna *(Group Chief Financial Officer)*	4/4	N/A	N/A	N/A	1/1
Lee Chi Hong, Robert	4/4	N/A	N/A	N/A	1/1
Non-Executive Directors					
Sir David Ford	4/4	N/A	N/A	N/A	1/1
Tse Sze Wing, Edmund	4/4	N/A	N/A	N/A	1/1
Lu Yimin *(Deputy Chairman of the Board)*	3/4 *(Note 7)*	N/A	N/A	N/A	1/1
Li Fushen	3/4 *(Note 7)*	N/A	3/3	N/A	1/1
Li Gang	3/4 *(Note 7)*	N/A	N/A	3/3	1/1
Wei Zhe, David *(Note 2)*	4/4	1/1	2/2	3/3	1/1
Independent Non-Executive Directors					
Dr The Hon Sir David Li Kwok Po *(Note 3)*	4/4	2/3	2/3	2/3	0/1
Aman Mehta *(Chairman of the Audit Committee, the Nomination Committee & the Remuneration Committee)*	4/4	3/3	3/3	3/3	1/1
Frances Waikwun Wong *(Note 4)*	3/3	N/A	1/1	N/A	1/1
Bryce Wayne Lee *(Note 5)*	2/2	2/2	N/A	2/2	N/A
Lars Eric Nils Rodert *(Note 6)*	1/1	N/A	N/A	N/A	N/A

Notes:

1. Directors may attend meetings in person, by phone or through other means of video conference or by their alternate directors in accordance with the Company's articles of association (the "Articles of Association").
2. Re-designated from an independent non-executive director to a non-executive director and resigned as a member of the Audit Committee and Nomination Committee with effect from May 4, 2012.
3. Resigned as a member of the Audit Committee with effect from November 30, 2012.
4. Appointed as an independent non-executive director with effect from March 1, 2012 and appointed as a member of the Nomination Committee with effect from May 4, 2012.
5. Appointed as an independent non-executive director and as a member of the Audit Committee and Remuneration Committee with effect from May 4, 2012.
6. Appointed as an independent non-executive director and as a member of the Audit Committee with effect from November 30, 2012.
7. Attendance at one Board meeting by an alternate director in accordance with the Articles of Association was not counted as attendance by the director himself in accordance with the requirements of the CG Code.

The Company has received from each of its independent non-executive directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and considers that all five independent non-executive directors as at the date of this report, namely Dr The Hon Sir David Li Kwok Po, Aman Mehta, Frances Waikwun Wong, Bryce Wayne Lee and Lars Eric Nils Rodert are still independent in accordance with the terms of the independence guidelines set out in Rule 3.13 of the Listing Rules. Please also refer to the details disclosed in the section headed "**Independent Non-Executive Directors**" in the Report of the Directors of this annual report.

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

BOARD OF DIRECTORS *(CONTINUED)*

The Board has introduced a structured process to evaluate the performance of all directors on an annual basis including a self-evaluation questionnaire which is completed by all directors and presented to the Audit Committee and Board meetings for discussion in order to review each director's performance of his/her responsibilities and his/her time commitment to the Company's affairs in accordance with the relevant requirements of the CG Code, and to identify areas for improvement. This process has confirmed that the performance of the directors and the time commitment in discharging their duties as directors of the Company for the year ended December 31, 2012 were generally satisfactory.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

As part of an ongoing process of director's training, the directors of the Company are updated on the latest developments regarding the Listing Rules and other applicable legal and regulatory requirements. They are provided with written materials from time to time to develop and refresh their knowledge and skills. The company secretary also organizes and arranges seminars on relevant topics which will count towards continuous professional development training. During the year, all directors of the Company, namely, Li Tzar Kai, Richard, Chan Ching Cheong, George, Hui Hon Hing, Susanna, Lee Chi Hong, Robert, Sir David Ford, Tse Sze Wing, Edmund, Lu Yimin, Li Fushen, Li Gang, Wei Zhe, David, Dr The Hon Sir David Li Kwok Po, Aman Mehta, Frances Waikwun Wong, Bryce Wayne Lee and Lars Eric Nils Rodert, received regular updates on the Company's business and written materials describing changes to the Listing Rules and other relevant rules and regulations. Additionally, the company secretary also organized training seminars presented by qualified professionals on legal and regulatory requirements for the directors. The Company has received confirmation from all directors of their respective training records for the year ended December 31, 2012.

BOARD COMMITTEES

During the year, the Regulatory Compliance Committee of the Board was re-established on May 3, 2012 and the following sub-committees of the Executive Committee were re-established:

1. Operational Committee (re-established on June 1, 2012)

2. Controls and Compliance Committee (re-established on October 12, 2012)

3. Corporate Social Responsibility Committee (re-established on October 12, 2012)

Details of the PCCW Board committees are disclosed herein below.

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

Executive Committee and Sub-committees

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

The Executive Committee comprises five members, including four executive directors and one non-executive director.

The members of the Executive Committee are:
Li Tzar Kai, Richard *(Chairman)*
Chan Ching Cheong, George
Hui Hon Hing, Susanna
Lee Chi Hong, Robert
Lu Yimin

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

The *Operational Committee* is chaired by the Group Managing Director and meets from time to time to direct the business units/operations of PCCW Group companies.

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

BOARD COMMITTEES *(CONTINUED)*

Executive Committee and Sub-committees *(continued)*

The *Corporate Social Responsibility Committee*, which reports to the Executive Committee, comprises senior members of PCCW's Group Communications, Group Human Resources, Corporate Secretariat, Group Finance, Risk Management, Network Operations and Group Purchasing and Supplies departments, as well as management from individual business units. The committee ensures that the Company operates in a manner that enhances its positive contribution to society and the environment.

Remuneration Committee

The Remuneration Committee was formed in May 2003 with the primary objective of ensuring that PCCW is able to attract, retain and motivate high-caliber employees who will underpin the success of the Company and enhance the value of the Company to shareholders.

The Remuneration Committee is responsible for overseeing the establishment and operation of formal and transparent procedures for developing the remuneration packages of directors and senior management of the Company and determining, with delegated responsibility, the remuneration packages of individual executive directors and senior management of the Company and to make recommendations to the Board on the remuneration of non-executive directors. In addition, the committee provides effective supervision and administration of the Company's share option schemes, as well as other share incentive schemes. The committee's authority and duties are set out in written terms of reference that are posted on the Company's website at www.pccw.com and the website of Hong Kong Exchanges and Clearing Limited (the "HKEx") at www.hkexnews.hk. This committee comprises five members, including three independent non-executive directors and two non-executive directors, and is chaired by an independent non-executive director.

The members of the Remuneration Committee during the year and up to the date of this annual report are:
Aman Mehta *(Chairman)*
Dr The Hon Sir David Li Kwok Po
Wei Zhe, David
Li Gang
Bryce Wayne Lee
(appointed with effect from May 4, 2012)

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

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

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

The Remuneration Committee met three times in 2012. The attendance of individual directors at the committee meetings is set out on page 16 of this annual report.

The following is a summary of work performed by the Remuneration Committee during 2012:

(i) review and approval of the 2011 bonus payment to executive directors and key management personnel;

(ii) consideration and approval of share awards made pursuant to the Company's share award scheme;

(iii) review and recommendation of the non-executive directors' fees for 2012 to the Board for approval;

(iv) consideration and approval of short term and long term incentives for staff; and

(v) review of the terms of reference of the Remuneration Committee and recommendation to the Board for approval the proposed amendments.

Emoluments of directors of the Company for 2012 have been reviewed by the Remuneration Committee at its meeting held on February 27, 2013.

Details of emoluments of each director are set out in the Financial Statements on pages 86 to 88 of this annual report.

BOARD COMMITTEES *(CONTINUED)*

Nomination Committee

The Nomination Committee was formed in May 2003 to make recommendations to the Board on the appointment and re-appointment of directors, structure, size and composition of the Board to ensure fair and transparent procedures for the appointment and re-appointment of directors to the Board. On February 27, 2013, the Board revised the terms of reference of the Nomination Committee to include in its primary duties an objective to maintain a balance of skills, experience and diversity of perspectives on the Board which are appropriate to the requirements of the Company's business. The committee's authority and duties are set out in written terms of reference that are posted on the websites of the Company and the HKEx.

The Company follows a formal, fair and transparent procedure for the appointment of new directors to the Board. The committee reviews the structure, size and composition of the Board, identifies suitably qualified candidates to become Board members and select or make recommendations to the Board on the selection of candidates nominated for directorships and succession planning for directors. During this process, the committee considers candidates based on merit and with due regard to the benefits of diversity on the Board.

The Nomination Committee comprises five members, including one executive director, one non-executive director and three independent non-executive directors. It is chaired by an independent non-executive director.

The members of the Nomination Committee during the year and up to the date of this annual report are:
Aman Mehta *(Chairman)*
Dr The Hon Sir David Li Kwok Po
Li Tzar Kai, Richard
Li Fushen
Frances Waikwun Wong
(appointed with effect from May 4, 2012)
Wei Zhe, David
(resigned with effect from May 4, 2012)

The Nomination Committee met three times in 2012. The attendance of individual directors at the committee meetings is set out on page 16 of this annual report.

The following is a summary of work performed by the Nomination Committee during 2012:

(i) consideration and recommendation to the Board for approval the appointment of Frances Waikwun Wong, Bryce Wayne Lee and Lars Eric Nils Rodert as independent non-executive directors;

(ii) review and assessment of the independence of all independent non-executive directors;

(iii) consideration and recommendation to the Board for approval the list of retiring directors for re-election at the 2012 annual general meeting;

(iv) review of the terms of reference of the Nomination Committee and recommendation to the Board for approval the proposed amendments; and

(v) consideration and recommendation to the Board for approval the re-designation of Wei Zhe, David from an independent non-executive director to a non-executive director.

At its meeting held on February 27, 2013, the Nomination Committee reviewed the structure, size and composition of the Board and formed the view that the Board has a balance of skills, knowledge and experience appropriate to the business requirements of the Company for the year ended December 31, 2012, with a recommendation to the Board for approval.

Audit Committee

The Audit Committee of the Board is responsible for ensuring objectivity and credibility of financial reporting, and that the directors have exercised the care, diligence and skills prescribed by law when presenting results to shareholders. The Audit Committee is also responsible for ensuring an effective system of internal controls of the Company is in place. On February 28, 2012, the Board revised the terms of reference of the Audit Committee to cover corporate governance functions. The committee's authority and duties are set out in written terms of reference that are posted on the websites of the Company and the HKEx.

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

At the Audit Committee meeting held on February 27, 2013, the Audit Committee recommended to the Board the re-appointment of PricewaterhouseCoopers to conduct statutory audits in respect of the Company for the financial year 2013 at the forthcoming annual general meeting.

The Audit Committee comprises three members, each of them is an independent non-executive director.

BOARD COMMITTEES *(CONTINUED)*

Audit Committee *(continued)*

The members of the Audit Committee during the year and up to the date of this annual report are:

Aman Mehta *(Chairman)*
Bryce Wayne Lee
(appointed with effect from May 4, 2012)
Lars Eric Nils Rodert
(appointed on November 30, 2012)
Dr The Hon Sir David Li Kwok Po
(resigned on November 30, 2012)
Wei Zhe, David
(resigned with effect from May 4, 2012)

The Audit Committee is provided with sufficient resources to discharge its duties and meets regularly with management, the internal auditor and external auditor and reviews their reports. During 2012, the committee met three times. The attendance of individual directors at the committee meetings is set out on page 16 of this annual report.

The following is a summary of work performed by the Audit Committee during 2012:

(i) review of the terms of reference of the Audit Committee and recommendation to the Board for approval the proposed amendments;

(ii) review of the annual report and the annual results announcement for the year ended December 31, 2011, with a recommendation to the Board for approval;

(iii) review and approval of PricewaterhouseCoopers' confirmation of independence, its report for the Audit Committee and the management representation letter for the year ended December 31, 2011, with a recommendation to the Board for the re-appointment of PricewaterhouseCoopers at the 2012 annual general meeting;

(iv) review of the Company's whistleblower program and adoption of a whistleblower policy;

(v) review of the annual report on effectiveness of internal controls under the Former CG Code, with a recommendation to the Board for approval;

(vi) review and approval of the continuing connected transactions for the year ended December 31, 2011 (including PricewaterhouseCoopers' report on their review of the continuing connected transactions) and of the continuing connected transactions for the six months ended June 30, 2012;

(vii) consideration and approval of the Group Internal Audit reports (including the internal audit workplan);

(viii) review of the interim report and the interim results announcement for the six months ended June 30, 2012, with a recommendation to the Board for approval;

(ix) review and approval of PricewaterhouseCoopers' confirmation of independence, its report for the Audit Committee and the management representation letter for the six months ended June 30, 2012;

(x) review and approval of the audit strategy memorandum for the year ended December 31, 2012;

(xi) review and approval of PricewaterhouseCoopers' pre-year end report for the Audit Committee and the audit engagement letters for the year ending December 31, 2012;

(xii) consideration and approval of the 2012 audit and non-audit services and pre-approval of the 2013 annual budget for audit and non-audit services;

(xiii) review of the corporate governance report for the year ended December 31, 2011 and the corporate governance disclosure for the six months ended June 30, 2012, with recommendations to the Board for approval;

(xiv) review of the criteria for the director self-evaluation exercise, with a recommendation to the Board for approval;

(xv) review of the reports from PricewaterhouseCoopers and an external law firm regarding the review of existing corporate governance policies, procedures, systems and controls which was undertaken by the Company in conjunction with PricewaterhouseCoopers and the external law firm, with recommendations to the Board for approval;

(xvi) review and monitoring of training and continuous professional development for directors and senior management; and

(xvii) review of amendments to the group policies (including the PCCW Code), with a recommendation to the Board for approval.

Subsequent to the year end, the Audit Committee reviewed the annual report and the annual results announcement for the year ended December 31, 2012, with a recommendation to the Board for approval.

BOARD COMMITTEES *(CONTINUED)*

Audit Committee *(continued)*

For the year ended December 31, 2012, fees paid and payable to the auditors of the Group amounted to approximately HK$25 million for audit services (2011: HK$23 million) and HK$13 million for non-audit services (2011: HK$36 million). The non-audit services included the following:

Nature of services	HK$ million
Tax services	6
Other services	7
	13

Regulatory Compliance Committee

The Regulatory Compliance Committee comprising three members, including one independent non-executive director, one non-executive director and one executive director of PCCW, has been re-established to review and monitor dealings of the Group with the Hutchison Whampoa Group, the Cheung Kong Group and the Hong Kong Economic Journal Company Limited. This is to ensure all dealings with these entities are conducted on an arm's-length basis.

The members of the Regulatory Compliance Committee are:
Tse Sze Wing, Edmund *(Chairman)*
Dr The Hon Sir David Li Kwok Po
Hui Hon Hing, Susanna

INTERNAL CONTROLS

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

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

The Audit Committee of the Company has established and oversees a whistleblower policy and a set of comprehensive procedures whereby employees, customers, suppliers and other concerned parties have the right and the ability to report any actual or suspected occurrence of improper conduct involving the Company, and for such matters to be investigated and dealt with efficiently in an appropriate and transparent manner. The Chairman of the Audit Committee has designated the Head of Group Internal Audit to receive on his behalf any such reports, to oversee the conduct of subsequent investigations, and to provide information, including recommendations, arising from any investigation to him for consideration by the Audit Committee of the Company.

The Company has adopted policies and procedures for assessing and, where prudent, improving the effectiveness of its internal controls and risk management functions, including requiring the management of the Company to regularly assess and at least annually to personally certify that such matters are appropriate and functioning effectively in the belief that this will enhance the corporate governance of the Company and the Company's business practices in the future.

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

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

INTERNAL CONTROLS *(CONTINUED)*

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

During 2012, Group Internal Audit conducted selective reviews of the effectiveness of the Group's system of internal controls over financial, operational, compliance controls and risk management functions with emphasis on information technology and procurement. Additionally, major heads of business and corporate functions were required to undertake a control self-assessment of their key controls. These results were assessed by Group Internal Audit and reported to the Audit Committee, which then reviewed and reported the same to the Board. The Audit Committee and the Board were not aware of any areas of concern that would have an adverse impact on the Company's financial position or results of operations and considered the internal control systems to be generally effective and adequate including the adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting and financial reporting function.

In addition to the review of internal controls undertaken within the Company, from time to time, management and/or the directors will engage professional third parties to assess and comment on the adequacy of the system of internal controls and, where appropriate, recommendations will be adopted and enhancements to the internal controls will be made.

Further information on internal controls adopted and implemented by the Group is available under the "Corporate Governance" section on the Company's website.

COMPANY SECRETARY

Ms Philana WY Poon was re-appointed as the Group Company Secretary of the Company with effect from August 11, 2012, and was previously the Company Secretary of the Company from 2007 to November 2011. She is also the Group General Counsel and Company Secretary of the HKT Trust and HKT Limited.

During the year ended December 31, 2012, Ms Poon has received no less than 15 hours of relevant professional training to refresh her knowledge and skills.

SHAREHOLDERS' RIGHTS

Procedures to convene an extraordinary general meeting and put forward proposals at general meetings of the Company

Shareholder(s) of the Company holding not less than one-twentieth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company may, in accordance with the requirements and procedures set out in Section 113 of the Companies Ordinance, request the Board to convene an extraordinary general meeting pursuant to Article 65 of the Articles of Association. The objects of the meeting must be stated in the related requisition which must be signed by the requisitionist(s) and deposited at the registered office of the Company for the attention of the Group Company Secretary.

Shareholders can also refer to the detailed requirements and procedures as set forth in the relevant sections of the Companies Ordinance and the Articles of Association when making any requisitions or proposals for transaction at the general meetings of the Company.

Procedures by which enquiries may be put to the Board

Shareholders may send enquiries to the Board in writing c/o the Corporate Secretariat with the following contact details:

Attention:	Group Company Secretary
Address:	41st Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong
Fax:	+852 2962 5725
Email:	co.sec@pccw.com

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company is committed to promoting and maintaining effective communication with the shareholders (both individual and institutional) and other stakeholders. A Shareholders Communication Policy has been adopted for ensuring the Company provides the shareholders and the investment community with appropriate and timely information about the Company in order to enable the shareholders to exercise their rights in an informed manner, and to allow the investment community to engage actively with the Company. The Shareholders Communication Policy is available on the Company's website (www.pccw.com).

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

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS *(CONTINUED)*

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

Regular dialogue takes place with the investment community. Inquiries from individuals on matters relating to their shareholdings and the business of the Company are welcomed and dealt with in an informative and timely manner. The relevant contact information is provided on page 148 of this annual report and also provided in the Shareholders Communication Policy.

Shareholders are encouraged to attend the forthcoming annual general meeting of the Company for which at least 20 clear business days' notice is given. At the meeting, directors will be available to answer questions on the Group's business and external auditor will be available to answer questions about the conduct of the audit, the preparation and content of the auditor's reports, the accounting policies and the auditor independence.

CONSTITUTIONAL DOCUMENTS

During the year ended December 31, 2012, there were no significant changes to the Memorandum and Articles of Association of the Company save for those approved at the annual general meeting held on May 3, 2012 to pass a special resolution approving the amendments to the Articles of Association of the Company to conform to the provisions of the Listing Rules (including the amendments thereto). The updated consolidated version of the Memorandum and Articles of Association of the Company is available on the websites of the Company and the HKEx.

On behalf of the Board

Philana WY Poon
Group Company Secretary
Hong Kong, February 27, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Core revenue increased by 7% to HK$24,134 million; consolidated revenue (including PCPD) increased by 3% to HK$25,318 million
- Core EBITDA increased by 6% to HK$7,681 million; consolidated EBITDA (including PCPD) increased by 3% to HK$7,788 million
- Consolidated profit attributable to equity holders of the Company increased by 3% to HK$1,663 million; basic earnings per share amounted to 22.90 HK cents
- Final dividend of 13.55 HK cents per ordinary share

MANAGEMENT REVIEW

PCCW delivered another set of strong financial results for 2012 on the back of notable growth across our core business segments – namely the Media business, the Solutions business and the Telecom business (via our approximate 63% interest in HKT Limited and the HKT Trust (collectively "HKT")).

Core revenue for the year ended December 31, 2012 increased by 7% to HK$24,134 million, with core EBITDA increasing by 6% to HK$7,681 million. Core profit attributable to equity holders, after accounting for the approximate 37% non-controlling interest in HKT, also increased modestly to HK$1,603 million. Had the approximate 37% non-controlling interest in HKT also applied in 2011, core profit attributable to equity holders would have shown an increase of 78%.

Consolidated revenue for the year ended December 31, 2012 increased by 3% to HK$25,318 million and consolidated EBITDA increased by 3% to HK$7,788 million, despite the lower revenue and EBITDA contributions from PCPD, which were HK$1,184 million and HK$107 million respectively. Consolidated profit attributable to equity holders of the Company also increased by 3% to HK$1,663 million. Basic earnings per share were 22.90 HK cents.

The board of Directors (the "Board") has recommended the payment of a final dividend of 13.55 HK cents per ordinary share for the year ended December 31, 2012.

OUTLOOK

In 2013, now TV is celebrating its 10th anniversary. It has grown to become the largest and most acclaimed pay-TV operator in Hong Kong. Going forward, now TV is committed to strengthening its program lineup with more high-quality production and premium content acquisitions, which will be complemented by its multi-screen strategy. Following initial success in overseas distribution of our content, we are currently engaged in discussions with more potential partners. now TV will leverage PCCW Solutions' IT competencies and HKT's network superiority to reinforce its market leadership in Hong Kong and develop into a renowned player in the region and internationally.

PCCW Solutions has an impeccable track record in serving the IT needs of enterprises and the public sector where system reliability is of utmost importance. It will benefit from the accelerating pace of IT outsourcing and the proliferation of cloud applications. To meet this rising demand, we have significantly expanded our data center facilities. The acquisition of Vandasoft Technology Holdings Limited and its subsidiaries ("Vanda China") has enriched our suite of solutions for the banking and finance sector with the addition of two leading software applications, at the same time widening our customer base in mainland China. In the longer-run, PCCW Solutions aims to enhance Vanda China's software and export it to the international market. PCCW Solutions will continue to identify opportunities to expand its presence in new industries and new geographies.

For HKT, fiber broadband and mobile service will remain the key growth impetus in 2013, while the fixed-line telephony business provides a steady revenue and a strong cash flow. Meanwhile, the global connectivity business commands considerable development potential following the extension of its footprint in Europe and Africa.

As we take steps to elevate our businesses to a new level in Hong Kong and beyond, we will act with caution amid the uncertain global economic outlook. Management is confident that the PCCW team will work diligently and in the best interest of our shareholders, and we are cautiously optimistic about the prospects for 2013.

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 year ended December 31, HK$ million	2011 H1	2011 H2	2011 Full Year	**2012 H1**	**2012 H2**	**2012 Full Year**	Better/ (Worse) y-o-y
Revenue							
HKT	9,537	10,288	19,825	**9,715**	**11,366**	**21,081**	6%
Media Business	1,189	1,518	2,707	**1,262**	**1,546**	**2,808**	4%
Solutions Business	1,090	1,119	2,209	**1,128**	**1,349**	**2,477**	12%
Other Businesses	35	39	74	**38**	**33**	**71**	(4)%
Eliminations	(915)	(1,388)	(2,303)	**(1,085)**	**(1,218)**	**(2,303)**	0%
Core revenue	10,936	11,576	22,512	**11,058**	**13,076**	**24,134**	7%
PCPD	1,250	876	2,126	**848**	**336**	**1,184**	(44)%
Consolidated revenue	12,186	12,452	24,638	**11,906**	**13,412**	**25,318**	3%
Cost of sales	(5,499)	(5,898)	(11,397)	**(5,281)**	**(6,535)**	**(11,816)**	(4)%
Operating costs before depreciation, amortization, and gain/(loss) on disposal of property, plant and equipment and intangible assets, net	(2,912)	(2,744)	(5,656)	**(2,789)**	**(2,925)**	**(5,714)**	(1)%
EBITDA[1]							
HKT	3,623	3,788	7,411	**3,736**	**3,933**	**7,669**	3%
Media Business	231	400	631	**217**	**274**	**491**	(22)%
Solutions Business	157	226	383	**168**	**267**	**435**	14%
Other Businesses	(476)	(366)	(842)	**(312)**	**(271)**	**(583)**	31%
Eliminations	–	(331)	(331)	**(139)**	**(192)**	**(331)**	0%
Core EBITDA[1]	3,535	3,717	7,252	**3,670**	**4,011**	**7,681**	6%
PCPD	240	93	333	**166**	**(59)**	**107**	(68)%
Consolidated EBITDA[1]	3,775	3,810	7,585	**3,836**	**3,952**	**7,788**	3%
Core EBITDA[1] Margin	*32%*	*32%*	*32%*	***33%***	***31%***	***32%***	
Consolidated EBITDA[1] Margin	*31%*	*31%*	*31%*	***32%***	***29%***	***31%***	
Depreciation and amortization	(1,962)	(1,987)	(3,949)	**(2,134)**	**(2,287)**	**(4,421)**	(12)%
Gain/(Loss) on disposal of property, plant and equipment and intangible assets, net	1	–	1	**(3)**	**(10)**	**(13)**	NA
Other gains, net	99	44	143	**12**	**359**	**371**	159%
Interest income	33	38	71	**27**	**35**	**62**	(13)%
Finance costs	(763)	(802)	(1,565)	**(469)**	**(497)**	**(966)**	38%
Share of results of associates and jointly controlled companies	(8)	40	32	**(43)**	**21**	**(22)**	NA
Profit before income tax	1,175	1,143	2,318	**1,226**	**1,573**	**2,799**	21%

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, interests in leasehold land and intangible assets, 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.*

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

HKT

For the year ended December 31, HK$ million	2011 H1	2011 H2	2011 Full Year	**2012 H1**	**2012 H2**	**2012 Full Year**	Better/ (Worse) y-o-y
HKT Revenue	9,537	10,288	19,825	**9,715**	**11,366**	**21,081**	6%
HKT EBITDA[1]	3,623	3,788	7,411	**3,736**	**3,933**	**7,669**	3%
HKT EBITDA[1] margin	*38%*	*37%*	*37%*	***38%***	***35%***	***36%***	
HKT Adjusted Funds Flow	1,352	1,035	2,387	**1,430**	**1,242**	**2,672**	12%

2012 was a stellar year for HKT with strong growth in revenue, EBITDA, net profit and, most importantly, adjusted funds flow in the first full financial year since its listing. These financial results beat the forecasts on all fronts as disclosed in HKT's global offering prospectus, demonstrating the strong underlying fundamentals of our business and the successful execution of HKT's strategy.

HKT revenue for the year ended December 31, 2012 increased by 6% to HK$21,081 million driven by the strong performance of the Telecommunications Services ("TSS") business and further gains made in the Mobile business. HKT EBITDA for the year was HK$7,669 million, an increase of 3% over the previous year and exceeding the prospectus forecast of HK$7,621 million.

During the year, TSS business continued to grow on its large base with revenue and EBITDA increasing by 6% and 2% respectively, underpinned by the successful fiber service strategy, turnaround to revenue growth of the traditional fixed-line business, and strong growth in the international business. The Mobile business once again delivered a strong performance with a 25% surge in revenue on a growing customer base and higher average revenue per user ("ARPU"), and recorded an impressive EBITDA growth of 44% with margin rising to 30% in 2012.

HKT's adjusted funds flow for the year ended December 31, 2012 reached HK$2,672 million, an increase of 12% over the previous year and 4% above the prospectus forecast of HK$2,574 million. Adjusted funds flow per share stapled unit was 41.64 HK cents.

For more information about the performance of HKT, please refer to its 2012 annual results announcement released on February 26, 2013.

Media Business

For the year ended December 31, HK$ million	2011 H1	2011 H2	2011 Full Year	**2012 H1**	**2012 H2**	**2012 Full Year**	Better/ (Worse) y-o-y
Media Business Revenue	1,189	1,518	2,707	**1,262**	**1,546**	**2,808**	4%
Media Business EBITDA[1]	231	400	631	**217**	**274**	**491**	(22)%
Media Business EBITDA[1] margin	*19%*	*26%*	*23%*	***17%***	***18%***	***17%***	

Revenue for the year ended December 31, 2012 grew by 4% to HK$2,808 million, which was attributable to the growth in its overall customer base, further enhancement in ARPU and contributions from advertising revenue.

now TV continued to reinforce its leadership in the pay-TV market in Hong Kong by enriching its program lineup with self-produced and co-produced channels, as well as other premium content in sports, movies and other genres. The exclusive broadcast of UEFA EURO 2012 enabled now TV to further increase penetration among the sports viewing customer segment and advertisers.

During the year, now TV recorded a net gain of 43,000 customers with the total installed subscriber base reaching 1,183,000 by the end of December 2012, an increase of 4% from a year ago. ARPU also rose to HK$173, compared with HK$169 a year earlier.

EBITDA for the year was HK$491 million compared to HK$631 million a year earlier, reflecting the upfront investments required for our self-produced and co-produced channels and overseas distribution initiatives, and the one-off costs related to certain premium sports content acquisitions such as UEFA EURO 2012.

With the experience of a decade of pay-TV operations, now TV has leveraged the technological capabilities within the Group to devise multi-screen viewing options such as now player and other apps to further enhance customers' viewing experience and drive customer penetration. This move has successfully extended now TV beyond the TV screen.

During the year, now TV also made significant progress in the execution of its growth strategy of expanding into overseas markets. It has concluded multi-channel distribution arrangements in Malaysia, Thailand, Canada and the USA, while discussions are ongoing with other major pay-TV operators and distributors.

Solutions Business

For the year ended December 31, HK$ million	2011 H1	2011 H2	2011 Full Year	**2012 H1**	**2012 H2**	**2012 Full Year**	Better/ (Worse) y-o-y
Solutions Business Revenue	1,090	1,119	2,209	**1,128**	**1,349**	**2,477**	12%
Solutions Business EBITDA[1]	157	226	383	**168**	**267**	**435**	14%
Solutions Business EBITDA[1] margin	*14%*	*20%*	*17%*	***15%***	***20%***	***18%***	

PCCW Solutions reported significant growth in revenue and EBITDA in 2012, which is testament to its leadership position in the IT services market in both Hong Kong and mainland China.

Revenue for the year ended December 31, 2012 increased by 12% to HK$2,477 million from HK$2,209 million. The secured order as at December 31, 2012 recorded a double-digit growth to approximately HK$5.56 billion, from HK$4.72 billion a year ago, as PCCW Solutions won more contracts across a wide spectrum of industries.

In November 2012, PCCW Solutions acquired Vanda China, a leading provider of core banking and finance solutions in mainland China. Vanda China owns the copyright in mainland China of two software product lines that are widely recognized as the leading banking and finance applications in the domestic market.

To meet the increasing data center needs of its customers in both the corporate and public sectors, PCCW Solutions increased its capacity to a total gross floor area of over 400,000 square feet by the end of December 2012. During the year, PCCW Solutions expanded its headcount by over 500 to service the growing pipeline in the Hong Kong and mainland China markets.

Benefitting from increased productivity and higher capacity utilization of our data centers, EBITDA for the year increased by 14% to HK$435 million with the EBITDA margin improving to 18% from 17% a year ago.

PCPD

PCPD recorded total revenue of HK$1,184 million and EBITDA of HK$107 million for the year ended December 31, 2012, compared with HK$2,126 million and HK$333 million respectively, a year earlier.

During the year, 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%.

In Hong Kong, PCPD announced the sale of all of its remaining houses at Villa Bel-Air, thereby marking the successful conclusion of the Bel-Air project. In mainland China, the investment property in Beijing, namely Pacific Century Place, had an average occupancy rate of approximately 64% for the year ended December 31, 2012.

The two overseas projects in Hanazono, Japan and Phang-nga, Southern Thailand, are proceeding in accordance with their respective schedules. In addition, PCPD will also examine other new investment opportunities with particular focus on the South East Asia region and China, both of which are witnessing strong economic growth and increasing affluence.

For more information about the performance of PCPD, please refer to its 2012 annual results announcement released on February 25, 2013.

Other Businesses

Other Businesses primarily comprise the wireless broadband business in the United Kingdom and corporate support functions. Revenue from Other Businesses was HK$71 million for the year ended December 31, 2012 (2011: HK$74 million), while the cost of the Group's Other Businesses decreased significantly to HK$583 million in 2012 (2011: HK$842 million) as we continued our efforts to streamline back office support and processes to drive operating efficiency.

Eliminations

Eliminations for the year ended December 31, 2012 were HK$2,303 million (2011: HK$2,303 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 year ended December 31, HK$ million	2011 H1	2011 H2	2011 Full Year	**2012 H1**	**2012 H2**	**2012 Full Year**	Better/ (Worse) y-o-y
The Group (excluding PCPD)	4,743	5,369	10,112	**4,801**	**6,384**	**11,185**	(11)%
PCPD	756	529	1,285	**480**	**151**	**631**	51%
Group Total	5,499	5,898	11,397	**5,281**	**6,535**	**11,816**	(4)%

The Group's consolidated total cost of sales for the year ended December 31, 2012 increased by 4% to HK$11,816 million mainly due to the 11% increase in cost of sales on the core business corresponding to the increase in core revenue.

General and Administrative Expenses
During the year, while the Group focused on enhancing operational efficiency and productivity, higher operating expenses were incurred to support business growth, especially in the telecom business. As a result, the operating expenses before depreciation and amortization, and gain/(loss) on disposal of property, plant and equipment and intangible assets, net, increased to HK$5,714 million for the year ended December 31, 2012, compared to HK$5,656 million a year ago. Similarly, customer acquisition costs increased in line with business growth, in particular the mobile area, and as a result, depreciation and amortization expenses increased by 12% to HK$4,421 million. General and administrative expenses, therefore, increased by 6% to HK$10,148 million for the year ended December 31, 2012.

EBITDA[1]
Solid performance in all core business segments led to an improvement in core EBITDA in 2012. Core EBITDA for the year ended December 31, 2012 increased by 6% to HK$7,681 million. Together with PCPD's EBITDA of HK$107 million, consolidated EBITDA also increased by 3% to HK$7,788 million for the year.

Interest Income and Finance Costs
Interest income for the year ended December 31, 2012 fell to HK$62 million due to a lower average cash balance in 2012. Finance costs decreased by 38% to HK$966 million, primarily due to the interest savings from the repayment of the US$1 billion 7.75% guaranteed notes in November 2011. As a result, net finance costs dropped by 39% to HK$904 million for the year.

Income Tax
Current income tax expense for the year ended December 31, 2012 was HK$696 million, as compared to HK$528 million a year ago, mainly due to higher operating profit. During the year, a deferred income tax credit of HK$464 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's net income tax expense fell to HK$232 million during the year.

Non-controlling Interests
Non-controlling interests of HK$904 million primarily represented the net profit attributable to the non-controlling shareholders of HKT and PCPD.

Consolidated Profit Attributable to Equity Holders of the Company
Consolidated profit attributable to equity holders of the Company for the year ended December 31, 2012 increased to HK$1,663 million (2011: HK$1,607 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 2012, the Group raised long-term funding of US$300 million through the issue of an unrated 10-year bond. The Group's gross debt[2], therefore, increased to HK$26,542 million as at December 31, 2012 (December 31, 2011: HK$23,592 million), and the Group's gross debt[2] to total assets increased to 53% as at December 31, 2012 (December 31, 2011: 51%).

As at December 31, 2012, the Group had a total of HK$30,464 million in committed bank loan facilities available for liquidity management, of which HK$17,962 million remained undrawn. Of these committed bank loan facilities, HKT accounted for HK$23,182 million, of which HK$10,758 million remained undrawn.

CREDIT RATINGS OF HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

As at December 31, 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 year ended December 31, 2012 was HK$2,275 million (2011: HK$1,991 million), of which HKT accounted for about 85% in 2012 (2011: 80%). Major outlays for the year were mainly in network expansion and enhancement to meet demand for high-speed fiber broadband services, mobile services and international networks, while the remainder was mainly used to expand the data center build-out for the Solutions business.

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 exposure related to cash investments and borrowings. As a matter of policy, the Group continues to manage the market risk directly relating to its operations and financing and does not undertake any speculative derivative trading activities. The Group determines appropriate risk management activities with the aim of prudently managing the market risk associated with transactions undertaken in the normal course of the Group's business. All treasury risk management activities are carried out in accordance with the Group's policies and guidelines, which are reviewed on a regular basis.

In the normal course of business, the Group enters into forward contracts and other derivative contracts in order to limit its exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions, and all contracts are denominated in currencies of major industrial countries. As at December 31, 2012, all cross currency swap contracts were designated as cash flow hedges and fair value hedges for the Group's foreign currency denominated short-term and long-term borrowings.

CHARGE ON ASSETS

As at December 31, 2012, certain assets of the Group with an aggregate carrying value of HK$5,819 million (2011: HK$5,476 million) were pledged to secure loans and bank loan facilities of the Group.

CONTINGENT LIABILITIES

As at December 31, HK$ million	2011	**2012**
Performance guarantees	444	**477**
Others	31	**91**
	475	**568**

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

HUMAN RESOURCES

As at December 31, 2012, the Group had approximately 20,900 employees (2011: 20,100). About 60% of these employees work in Hong Kong and the others are based mainly in the PRC, the Philippines and the United States. The Company 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.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of 13.55 HK cents (2011: 10.60 HK cents) per ordinary share for the year ended December 31, 2012 subject to the approval of shareholders of the Company at the forthcoming annual general meeting ("AGM"). An interim dividend of 5.51 HK cents (2011: 5.30 HK cents) per ordinary share for the six months ended June 30, 2012 was paid by the Company in October 2012.

FINANCIAL INFORMATION

REPORT OF THE DIRECTORS

The board of directors (the "Board") presents its annual report together with the audited consolidated financial statements of PCCW Limited ("PCCW" or the "Company") and its subsidiaries (collectively the "Group") for the year ended December 31, 2012.

PRINCIPAL ACTIVITIES

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

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2012 are set out in the accompanying consolidated financial statements on page 53.

During the year ended December 31, 2011, PCCW declared a conditional special dividend to be satisfied by way of two distributions in specie of share stapled units jointly issued by the HKT Trust and HKT Limited ("Share Stapled Units") representing an aggregate of approximately 5% of the Share Stapled Units in issue immediately following the completion of the spin off of the telecommunications business of PCCW and its separate listing on The Stock Exchange of Hong Kong Limited ("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 of Hong Kong Limited (the "Stock Exchange") on November 29, 2011. Accordingly, the estimated dividend payable of approximately HK$1,443 million was recorded, which is measured at the fair value of approximately 5% of the Share Stapled Units to be distributed on the date when the Distributions in Specie became unconditional.

The first Distribution in Specie represented a distribution of 158,080,457 Share Stapled Units on the basis of 1 Share Stapled Unit for every integral multiple of 46 ordinary shares of the Company, and was transferred to eligible shareholders in March 2012.

The second Distribution in Specie represented a distribution of 158,080,503 Share Stapled Units on the basis of 1 Share Stapled Unit for every integral multiple of 46 ordinary shares of the Company, and was transferred to eligible shareholders in May 2012.

An interim dividend of 5.51 HK cents per ordinary share (2011: 5.30 HK cents per ordinary share), totaling approximately HK$401 million, was paid to shareholders of the Company in October 2012.

The Board has recommended the payment of a final dividend of 13.55 HK cents per ordinary share (2011: 10.6 HK cents per ordinary share) for the year ended December 31, 2012 subject to the approval of shareholders of the Company at the forthcoming annual general meeting.

FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of the Group for the last five financial years is set out on page 146.

SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED COMPANIES

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

FIXED ASSETS

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

BORROWINGS

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

SHARE CAPITAL

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

RESERVES

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2012, the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover. The aggregate amount of purchases attributable to the Group's five largest suppliers represented less than 30% of the Group's total purchases.

DIRECTORS

The directors who held office during the year and up to the date of this report are:

Executive Directors

Li Tzar Kai, Richard *(Chairman)*
Chan Ching Cheong, George *(Group Managing Director)*
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 (re-designated from an Independent Non-Executive Director with effect from May 4, 2012)

Independent Non-Executive Directors

Dr The Hon Sir David Li Kwok Po, GBM, GBS, OBE, JP
Aman Mehta
Frances Waikwun Wong (appointed with effect from March 1, 2012)
Bryce Wayne Lee (appointed with effect from May 4, 2012)
Lars Eric Nils Rodert (appointed on November 30, 2012)

In accordance with Article 92 of the Company's Articles of Association, Bryce Wayne Lee and Lars Eric Nils Rodert shall retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Article 101A of the Company's Articles of Association, Li Tzar Kai, Richard, Tse Sze Wing, Edmund, Dr The Hon Sir David Li Kwok Po and Aman Mehta shall retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and considers that all five independent non-executive directors as at the date of this report, namely, Dr The Hon Sir David Li Kwok Po, Aman Mehta, Frances Waikwun Wong, Bryce Wayne Lee and Lars Eric Nils Rodert are still independent in accordance with the terms of the independence guidelines set out in Rule 3.13 of the Listing Rules.

On September 15, 2010, PCRD Services Pte Ltd ("PCRD Services"), a wholly-owned subsidiary of Pacific Century Regional Developments Limited ("PCRD") (a substantial shareholder of the Company), together with Aman Mehta (an independent non-executive director of the Company), Akash Mehta (the adult son of Aman Mehta) and Pasha Ventures Private Limited ("Pasha Ventures") entered into a share sale agreement with American International Group, Inc. ("AIG"), pursuant to which Pasha Ventures, PCRD Services, Aman Mehta and Akash Mehta agreed that Pasha Ventures would acquire the entire issued equity capital of AIG Home Finance India Limited (subsequently known as Indo Pacific Housing Finance Limited) ("AIGHFIL" or subsequently known as "Indo Pacific") and AIGHFIL's wholly-owned subsidiary, Consumer Financial Services Limited ("CFSL"), from AIG (the "Acquisition") for an aggregate consideration of Indian Rupees 20,000,006 (equivalent to approximately HK$3.36 million). Pasha Ventures is an Indian private limited company incorporated for the purposes of acquiring AIGHFIL pursuant to the Acquisition. AIGHFIL was a public limited company incorporated in India and was an indirect wholly-owned subsidiary of AIG. AIGHFIL and its wholly-owned subsidiary, CFSL, originated secured housing loans and loans against properties (i.e. home equity loans). The Acquisition was completed on October 20, 2010. As of October 20, 2010, PCRD Services held 74% of the issued equity capital of Pasha Ventures, and Aman Mehta and Akash Mehta held 21% and 5% of the paid up issued equity capital of Pasha Ventures respectively. PCRD Services entered into a shareholders' agreement with Aman Mehta, Akash Mehta and Pasha Ventures under which there were provisions for a call option which gave PCRD Services the right to purchase up to 1% of the paid up issued equity capital of Pasha Ventures held by Aman Mehta at an exercise price of Indian Rupees 131 per share. In addition, Akash Mehta was one of the directors of Indo Pacific and CFSL. He did not have control over the board of directors of these companies. Akash Mehta is a director of Pasha Ventures. On March 11, 2012, Pasha Ventures, PCRD's indirect subsidiary, entered into a conditional share purchase agreement with L&T Finance Holdings Limited, Indo Pacific, PCRD Services, Aman Mehta and Akash Mehta for the sale of all the issued and paid up equity capital of Indo Pacific (the "Disposal"). As of March 11, 2012, PCRD Services held 74% of the issued equity capital of Pasha Ventures with the remaining 26% being held by Aman Mehta and Akash Mehta. On October 9, 2012, the Disposal was completed and Pasha Ventures no longer holds any interest in Indo Pacific and Indo Pacific has ceased to be a subsidiary of PCRD.

On February 15, 2013, PCRD announced the execution of a term sheet ("Term Sheet") between PCRD Services and, amongst the others, KSH Distriparks Private Limited ("KSH"), Pasha Ventures, Aman Mehta and Akash Mehta (together, the "Mehta Family") and Sky Advance Associates Limited ("Sky Advance", a company owned by Akash Mehta) in relation to the proposed restructuring (the "Proposed Restructuring") of their respective interests in Pasha Ventures and KSH by way of a scheme of amalgamation. KSH is an Indian private limited logistics company with an inland container depot located in Pune, India and owned as to 25.94% and 5.19% respectively by PCRD Services and Sky Advance. Pursuant to the Term Sheet and subject to and conditional upon, *inter alia*, the terms of definitive legal agreements to be negotiated, finalised and entered into between the parties, as a result of the Proposed Restructuring, Pasha Ventures will be amalgamated with KSH and Pasha Ventures will cease to be a subsidiary of PCRD. The shareholdings of PCRD Services, Sky Advance and the Mehta Family in KSH would be approximately 49.87%, 2.61% and 12.94% respectively. Aman Mehta would be a passive investor in KSH and would not hold any directorship in KSH. Save as disclosed above, Aman Mehta is not in any way connected to PCRD, PCRD Services or PCCW.

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

DIRECTORS' SERVICE CONTRACTS

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

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

As at December 31, 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, underlying Share Stapled Units and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules:

1. Interests in the Company

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

Name of Director/ Chief Executive	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. 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;

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

1. Interests in the Company *(continued)*

Notes: *(continued)*

1. (b) *(continued)*

(ii) a deemed interest in 154,785,177 shares of the Company held by Pacific Century Group Holdings Limited ("PCGH"). Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 154,785,177 shares of the Company held by PCGH;

(iii) a deemed interest in 1,548,211,301 shares of the Company held by PCRD, a company in which PCGH had, through 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 75.80% 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 in the capacity of investment manager.

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.

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 "2013 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 2013 Notes held by PBIA in the capacity of investment manager.

B. PCCW-HKT Capital No.4 Limited

On October 19, 2012, PCG Financial Services Holdings (Singapore) Pte. Ltd. (the "Purchaser") entered into a conditional sale and purchase agreement in relation to the acquisition of, among others, the indirect interests in ING Life Insurance Company (Bermuda) Limited ("ING") (the "Transaction"). Li Tzar Kai, Richard was indirectly interested as to 100% of the issued share capital of the Purchaser. Upon completion of the Transaction, Li Tzar Kai, Richard will be indirectly interested as to 100% of the issued share capital of ING. As at December 31, 2012, ING held US$9,000,000 of 4.25% guaranteed notes due 2016 (the "2016 Notes") issued by PCCW-HKT Capital No.4 Limited, an associated corporation of the Company. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the amount of US$9,000,000 of the 2016 Notes held by ING.

2. Interests in Associated Corporations of the Company *(continued)*

C. HKT Trust and HKT Limited

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

Name of Director/ Chief Executive	Number of Share Stapled Units: Personal interests	Family interests	Corporate interests	Other interests	Number of underlying Share Stapled Units held under equity derivatives	Total	Approximate percentage of issued Share Stapled Units
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%

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 in the capacity of investment manager.

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)*

C. HKT Trust and HKT Limited *(continued)*

Notes: *(continued)*

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.

Save as disclosed in the foregoing, as at December 31, 2012, 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.

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

1. The Company

A. Share Option Schemes

The Company adopted a share option scheme on September 20, 1994 (the "1994 Scheme") and unless otherwise cancelled or amended, is valid and effective for 10 years from that date. The 1994 Scheme was amended at an extraordinary general meeting of the Company held on May 23, 2002 in order to, among other things, comply with the requirements of Chapter 17 of the Listing Rules which came into effect on September 1, 2001. At the annual general meeting of the Company held on May 19, 2004, the shareholders of the Company approved the termination of the 1994 Scheme and adoption of a new share option scheme (the "2004 Scheme"). The 2004 Scheme will remain in force for 10 years from the date of its adoption, unless otherwise cancelled or amended.

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

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

The maximum number of shares in respect of which options may be granted under the 2004 Scheme shall not in aggregate exceed 10% of the shares of the Company in issue as at the date of approval of such scheme. As at December 31, 2012, there were no outstanding share options under the 2004 Scheme and the total number of shares of the Company that may be issued on exercise of all share options granted and yet to be exercised under the 1994 Scheme was 39,965,538 which represented approximately 0.55% of the issued share capital of the Company as at that date. The maximum entitlement of any eligible person (other than a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates) under the Schemes is the total number of shares issued and to be issued on exercise of all options granted and to be granted in any 12-month period up to and including the date of the latest grant up to a maximum of 1% of the shares of the Company in issue at the relevant time. Any further grant of share options in excess of this limit is subject to shareholders' approval at a general meeting.

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

1. The Company *(continued)*

A. Share Option Schemes *(continued)*

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

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

Details of the share options outstanding and movements during the year ended December 31, 2012 are as follows:

(i) 1994 Scheme

(1) Outstanding options as at January 1, 2012 and as at December 31, 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 12.31.2012
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	–
	11.13.2002	11.13.2003 to 11.13.2005	11.13.2003 to 11.12.2012	6.1500	5,480,000	–
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	34,320,538	32,965,538
	09.16.2003	09.16.2004 to 09.16.2006	09.16.2004 to 09.14.2013	4.9000	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 year ended December 31, 2012

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

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

1. The Company *(continued)*

A. Share Option Schemes *(continued)*

(i) 1994 Scheme *(continued)*

(3) Options cancelled or lapsed during the year ended December 31, 2012

Name or category of participant	Exercise price HK$	Number of options cancelled	Number of options lapsed
Employees			
In aggregate	7.9150	–	86,700
	8.0600	–	200,000
	6.1500	–	5,480,000
	4.3500	–	1,355,000
	4.9000	–	7,000

(ii) 2004 Scheme

There were no outstanding share options as at January 1, 2012 and December 31, 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 year ended December 31, 2012.

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, notwithstanding that the relevant committee of the Company's Board shall be at liberty to waive such condition. In May 2006, the rules of the Purchase Scheme were altered such that the directors of the Company were also eligible to participate in such scheme. Pursuant to the relevant scheme rules of the Purchase Scheme and the Subscription Scheme, both schemes expired on November 15, 2012. The expiry of the schemes would not affect the shares which were previously awarded prior to the expiry date. Each of the participating subsidiaries of the Company is in the process of adopting a new set of scheme rules in respect of the Purchase Scheme and the Subscription Scheme so as to continue to participate in both schemes for a further 10 years and to accommodate the grant of Share Stapled Units in addition or as alternative to the shares of the Company, in the future.

During the year ended December 31, 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 share awards; and awards in respect of an aggregate of 4,737,940 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 14,822 shares of the Company have lapsed and/or been forfeited. As at December 31, 2012, 11,645,118 shares of the Company granted pursuant to the Purchase Scheme remained unvested. During the year ended December 31, 2012, no awards however have been made to any employees of the Company and/or its subsidiaries under the Subscription Scheme. As at December 31, 2012, none of the shares granted pursuant to the Subscription Scheme remained unvested. Further details of the two schemes are set out in note 32 to the consolidated financial statements.

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

2. HKT Trust and HKT Limited

A. Share Stapled Units Option Scheme

The HKT Trust and HKT Limited conditionally adopted on November 7, 2011 (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 (as defined below) to subscribe for such number of Share Stapled Units as the Trustee-Manager Board and the HKT Board may determine at a subscription price on and subject to the terms and conditions stipulated therein.

(1) Purpose

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

(2) Eligible Participant

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

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

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

(i) Notwithstanding any other provisions of the HKT 2011-2021 Option Scheme, no options may be granted under the HKT 2011-2021 Option Scheme if the exercise of the option may result in PCCW ceasing to hold at least 51% of the Share Stapled Units in issue (on a fully diluted basis assuming full conversion or exercise of all outstanding options and other rights of subscription, conversion and exchange for Share Stapled Units).

(ii) Subject to the further limitation in (i) above, as required by the Listing Rules the total number of Share Stapled Units which may be issued upon exercise of all options to be granted under the HKT 2011-2021 Option Scheme and any other share option schemes of the HKT Trust and HKT Limited must not, in aggregate, exceed 10% of the issued Share Stapled Units as at November 29, 2011 unless the approval of holders of Share Stapled Units has been obtained.

(iii) In addition, as prescribed by the Listing Rules, the maximum aggregate number of Share Stapled Units which may be issued upon exercise of all outstanding options granted and yet to be exercised under the HKT 2011-2021 Option Scheme and any other share option schemes of the HKT Trust and HKT Limited must not exceed 30% of the issued Share Stapled Units from time to time. No options may be granted under the HKT 2011-2021 Option Scheme if this will result in such limit being exceeded.

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

2. HKT Trust and HKT Limited *(continued)*

A. Share Stapled Units Option Scheme *(continued)*

(4) The maximum entitlement of each Eligible Participant

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

(5) Option period

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

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

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

(7) Payment on acceptance of the option

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

(8) Basis of determining the subscription price

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

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

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

No Share Stapled Unit option has been granted under the HKT 2011-2021 Option Scheme since the Adoption Date and up to and including December 31, 2012.

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

2. HKT Trust and HKT Limited *(continued)*

B. Share Stapled Units Award Schemes

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

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

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

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

Subject to the rules of the HKT Share Stapled Units Award Schemes, each scheme provides that following the making of an award to an employee of HKT and its subsidiaries (collectively 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, notwithstanding that the relevant committee of the HKT Board shall be at liberty to waive such condition. Please refer to the details of the awards made to employees during the year ended December 31, 2012 which are set out in note 32(d)(ii) to the consolidated financial statements on pages 117 to 119.

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

Share Option Scheme

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

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

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

Share Option Scheme *(continued)*

Details of the share options outstanding under the 2003 PCPD Scheme and movements during the year ended December 31, 2012 are as follows:

2003 PCPD Scheme

(1) Outstanding options as at January 1, 2012 and as at December 31, 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 12.31.2012
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 December 31, 2012, the total number of shares of PCPD that might be issued upon exercise of all the 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) ("Bonus Issue") and the share consolidation which became effective on June 25, 2012 ("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 reorganization 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 year ended December 31, 2012

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

(3) Options exercised during the year ended December 31, 2012

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

(4) Options cancelled or lapsed during the year ended December 31, 2012

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

2005 PCPD Scheme

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

Notes:

1. All dates are shown month/day/year.
2. 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 year was the Company or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangement that may enable the directors of the Company to acquire benefits by means of the acquisition of shares or Share Stapled Units in, or debentures of, the Company or any other body corporate and none of the directors or chief executives of the Company or their spouses or children under 18 years of age had any right to subscribe for equity, Share Stapled Units or debt securities of the Company or any of its associated corporations or had exercised any such right during the year.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at December 31, 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 75.80% 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. Subsequent to December 31, 2012, the Company was notified of the transfer of these interests from China Netcom Corporation (BVI) Limited to China Unicom Group Corporation (BVI) Limited, a company wholly-owned by Unicom.

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

As at December 31, 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**").

For identification only

INTERESTS AND SHORT POSITIONS OF OTHER PERSONS REQUIRED TO BE DISCLOSED UNDER THE SFO *(CONTINUED)*

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 December 31, 2012.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended December 31, 2012, the interests of the directors of the Company in competing business required to be disclosed pursuant to Rule 8.10 of the Listing Rules were as follows:

Name of Director	Name of company	Nature of business	Nature of interests
Li Tzar Kai, Richard	Cheung Kong and its subsidiaries (the "Cheung Kong Group")	Property development and investment, hotel and serviced suite operation, property and project management and investment in securities	Deemed interests in Cheung Kong *(Note 1)*
	HWL and its subsidiaries (the "Hutchison Group")	Ports and related services; property and hotels; retail; infrastructure; energy; telecommunications; and finance & investments and others	Certain personal and deemed interests in HWL *(Note 2)*
Lu Yimin	Unicom and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Vice Chairman and President of Unicom
	China United Network Communications Limited ("Unicom A-Share") and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Director and President of Unicom A-Share
	China Unicom (Hong Kong) Limited ("Unicom HK") and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Executive Director and President of Unicom HK
Li Fushen	Unicom and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Director, Vice President and Chief Accountant of Unicom
	Unicom A-Share and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Director of Unicom A-Share
	Unicom HK and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Executive Director and Chief Financial Officer of Unicom HK

DIRECTORS' INTERESTS IN COMPETING BUSINESS *(CONTINUED)*

Name of Director	Name of company	Nature of business	Nature of interests
Li Gang	Unicom and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Vice President of Unicom
	Unicom HK and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Senior Vice President of Unicom HK

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

Further, Li Tzar Kai, Richard is a director and Chairman of PCRD. PCRD is an investment holding company with interests in telecommunications and media (through the Company), financial services, property and infrastructure in the Asia Pacific region.

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

Li Tzar Kai, Richard has a controlling interest in some of the Private Companies. Further, he is or may be regarded as interested in PCRD and PCGH due to the interests as disclosed in the section headed "**Directors' and Chief Executives' Interests and Short Positions in Shares, Share Stapled Units, Underlying Shares, Underlying Share Stapled Units and Debentures of the Company and its Associated Corporations**" of this report.

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

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

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

Notes:

1. Certain businesses of the Cheung Kong Group may compete with certain aspects of the business of the Group. Li Tzar Kai, Richard is one of the discretionary beneficiaries of certain discretionary trusts which hold units in unit trusts which in turn are interested in certain shares of Cheung Kong.

2. Li Tzar Kai, Richard was a director of HWL and certain of its subsidiaries until August 16, 2000, the day before the acquisition of Cable & Wireless HKT Limited (now known as PCCW-HKT Limited) became effective. Certain businesses of the Hutchison Group compete with certain aspects of the business of the Group. Li Tzar Kai, Richard has a personal interest in 110,000 shares in HWL, and is one of the discretionary beneficiaries of certain discretionary trusts which hold units in unit trusts which in turn are interested in certain shares of HWL.

CHARITABLE DONATIONS

During the year, the Group made charitable donations of approximately HK$0.02 million (2011: HK$0.1 million).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended December 31, 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

During the year ended December 31, 2012, the Group has entered into certain transactions which constituted connected transactions and/or continuing connected transactions (as defined in the Listing Rules) of the Company and details of these transactions are set out below in accordance with the Listing Rules:

Connected Transaction

On August 13, 2012, Web Commerce Limited ("WCL"), a wholly-owned subsidiary of the Company, entered into a subscription agreement and a limited partnership agreement with Vision Knight Capital General Partners Ltd. (the "General Partner"), to invest up to a maximum amount of US$25 million (approximately HK$195 million) in Vision Knight Capital (China) Fund I, L.P. (the "Fund") as one of the limited partners of the Fund (the "Limited Partners").

The Fund has been established in the Cayman Islands as an exempted limited partnership with the principal objective of generating capital returns primarily through equity and equity-related investments in the form of public or private debt, equity or hybrid securities. The Fund is managed by the General Partner which has appointed Vision Knight Capital Management Company Limited (the "Management Company") as the fund manager of the Fund. The total aggregate capital commitments to the Fund by the Limited Partners shall not exceed US$300 million (approximately HK$2,340 million) and the term of the Fund commenced on June 17, 2011 and will end on December 31, 2019.

Wei Zhe, David, a non-executive director of the Company, is one of the founders of the Fund. He is also a Limited Partner, a director and a majority shareholder of each of the General Partner and the Management Company. Accordingly, the Fund, the General Partner and the Management Company are associates of Wei Zhe, David under the Listing Rules and, therefore, connected persons of the Company under the Listing Rules. As such, the investment by WCL of a limited partnership interest in the Fund (the "Investment") constituted a connected transaction for the Company under Rule 14A.13(1)(a) of the Listing Rules. Since the percentage ratios (as defined in the Listing Rules) applicable to the Investment exceed 0.1% but do not exceed 5% and, therefore, pursuant to Rule 14A.32 of the Listing Rules, the Investment was only subject to the reporting and announcement requirements set out in Rules 14A.45 and 14A.47 of the Listing Rules and was exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Details of this transaction were set out in the Company's announcement dated August 13, 2012.

Continuing Connected Transactions

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

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

   The Group has, from time to time, entered into transactions with the Unicom Group relating to (i) the acquisition and provision of certain information technology services and products (the "Unicom Transactions"); and (ii) the lease and facility and management services as referred to in the Company's announcement dated January 4, 2008 (the "Lease and Facility and Management Services", together with the Unicom Transactions collectively referred to as the "CU Transactions"). These transactions constituted continuing connected transactions of the Company under the Listing Rules.

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

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

Continuing Connected Transactions *(continued)*

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

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

   As stated in the Company's announcement dated January 17, 2012, the Company set the new annual caps for each of the following categories of the Unicom Transactions for the three financial years ending December 31, 2014 based on the nature of transactions from time to time entered into with the Unicom Group:

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

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

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

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

   The Group may from time to time enter into the IRU Contracts and the IPLC Services Agreements which are categorized under data services (as mentioned above) and are part of the normal commercial activities of the Group.

   As disclosed in the Company's announcement dated November 30, 2012, a waiver has been sought from and granted by the Stock Exchange from strict compliance with Rule 14A.35(1) of the Listing Rules in relation to the execution of IRU Contracts with the Unicom Group with a duration exceeding three years, and the Stock Exchange had agreed to modify the waiver previously granted on December 21, 2011 such that the Company is not required to obtain an opinion from an independent financial adviser ("IFA") each time when it, or any of its subsidiaries, enters into IRU Contracts with the Unicom Group which have a duration longer than three years. Such waiver is granted subject to a condition that the Company will obtain a fresh IFA opinion when it enters into any IRU Contract with the Unicom Group with a duration exceeding three years if (a) the duration of the IRU Contracts; or (b) the normal business practice for the IRU Contracts at that time is different from the duration covered by the latest published IFA opinion and applies until December 31, 2014. Investec Capital Asia Limited, which was appointed as the Company's IFA to advise on the duration of the IRU Contracts, had taken into consideration certain principal factors as disclosed in the Company's announcement dated November 30, 2012 and was of the opinion that it was (i) essential to safeguard the interests of the Company and its shareholders; and (ii) a normal business practice to enter into the IRU Contracts with duration exceeding three years and for up to 15 years.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

Continuing Connected Transactions *(continued)*

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

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

Category	Approximate aggregate value for the financial year ended December 31, 2012 HK$'000	Annual cap for the Unicom Group for the financial year ended December 31, 2012 HK$'000
(1) Provision of data services by the Group to the Unicom Group	101,900	400,000
(2) Provision of data services by the Unicom Group to the Group	134,387	550,000
(3) Provision of systems integration services by the Group to the Unicom Group	114,673	400,000

Regarding the Lease and Facility and Management Services, 電訊盈科信息技術（廣州）有限公司 (PCCW Solutions (Guangzhou) Limited) ("PCCW GZ"), an indirect wholly-owned subsidiary of the Company, entered into a lease and facility and management services agreement (the "Agreement") with 中國網絡通信集團公司廣東省分公司 (China Network Communications Group Corporation Guangdong Branch) ("CNC GD"), the Guangdong branch of China Network Communications Group Corporation ("CNC") in January 2008 with duration exceeding three years. Pursuant to the Agreement, CNC GD leases to PCCW GZ an area for use as a service centre and provides PCCW GZ with facility and management services in respect of certain area in CNC Science Town Telecommunications Hub Building situated in the Guangzhou Science Town, Guangdong Province, the PRC. As disclosed in the Company's announcement dated January 4, 2008, Access Capital Limited (now known as Investec Capital Asia Limited), an independent financial adviser, which was appointed by the Company in accordance with the Listing Rules, was of the view that the transactions under the Agreement may enhance and safeguard the business and performance of the Group, and the interests of the Company and its shareholders as a whole, and given the nature of the lease and the services to be provided by CNC GD under the Agreement and any supplemental agreement when it is entered into, it is normal business practice for the Agreement and the supplemental agreement in relation to the optional extended areas (if and when it is entered into when the area extension option is exercised by PCCW GZ pursuant to the Agreement), if any, to have a duration of 15 years, with an option to renew for another five years. The approximate service fees charged by CNC GD for the year ended December 31, 2012 was HK$17,095,869 which did not exceed the annual cap for the fifth year of the 15-year term of HK$32,644,000.

2. **Annual Review of Continuing Connected Transactions**

The Company's external auditor was engaged to report on the CU Transactions entered into by the Group for the year ended December 31, 2012 in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The external auditor has issued their unqualified letter containing their findings and conclusions in respect of the CU Transactions in accordance with Rule 14A.38 of the Listing Rules.

The Board, including the independent non-executive directors of the Company, has reviewed and confirmed that the CU Transactions for the year ended December 31, 2012 were entered into:

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

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

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

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in normal course of business are set out in note 5 to the consolidated financial statements. In relation to those related party transactions that constituted connected transactions under the Listing Rules, they have complied with applicable requirements in accordance with the Listing Rules.

PUBLIC FLOAT

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

AUDITOR

The financial statements for the financial year ended December 31, 2012 have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Philana WY Poon
Group Company Secretary
Hong Kong, February 27, 2013

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

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

We have audited the consolidated financial statements of PCCW Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 53 to 145, which comprise the consolidated and company balance sheets as at December 31, 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company statements of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at December 31, 2012 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, February 27, 2013

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

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2012

In HK$ million (except for earnings per share)	Note(s)	2011	**2012**
Turnover	6 & 7	24,638	**25,318**
Cost of sales		(11,397)	**(11,816)**
General and administrative expenses		(9,604)	**(10,148)**
Other gains, net	8	143	**371**
Interest income		71	**62**
Finance costs	10	(1,565)	**(966)**
Share of results of associates		44	**31**
Share of results of jointly controlled companies		(12)	**(53)**
Profit before income tax	7 & 9	2,318	**2,799**
Income tax	12	(542)	**(232)**
Profit for the year		1,776	**2,567**
Attributable to:			
Equity holders of the Company		1,607	**1,663**
Non-controlling interests		169	**904**
Profit for the year		1,776	**2,567**
Earnings per share	15		
Basic		22.10 cents	**22.90 cents**
Diluted		22.10 cents	**22.90 cents**

The notes on pages 59 to 145 form part of these consolidated financial statements. Details of dividend payable to equity holders of the Company attributable to the profit for the year are set out in note 14.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2012

In HK$ million	2011	**2012**
Profit for the year	1,776	**2,567**
Other comprehensive income		
Translation exchange differences:		
– exchange differences on translating foreign operations	269	**129**
Available-for-sale financial assets:		
– changes in fair value	97	**(12)**
Cash flow hedges:		
– effective portion of changes in fair value	16	**(107)**
– transfer from equity to income statement	(49)	**29**
Other comprehensive income for the year	333	**39**
Total comprehensive income for the year	2,109	**2,606**
Attributable to:		
Equity holders of the Company	1,833	**1,692**
Non-controlling interests	276	**914**
Total comprehensive income for the year	2,109	**2,606**

The notes on pages 59 to 145 form part of these consolidated financial statements.

CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY

For the year ended December 31, 2012

In HK$ million	Note(s)	The Group 2011 Attributable to equity holders of the Company	The Group 2011 Non-controlling interests	The Group 2011 Total equity	The Company 2011 Total equity
At January 1, 2011		(3,263)	2,655	(608)	30,580
Total Comprehensive income for the year					
Profit for the year		1,607	169	1,776	169
Total other comprehensive income		226	107	333	–
		1,833	276	2,109	169
Total contributions by and distributions to equity owners recognized in equity					
Dividend paid in respect of previous year	14 & 33	(742)	–	(742)	(742)
Dividend declared and paid in respect of the current year	14 & 33	(385)	–	(385)	(385)
Special dividend in specie	14 & 33	(1,443)	–	(1,443)	(1,443)
Dividend declared and paid to non-controlling shareholders of a subsidiary		–	(35)	(35)	–
Dilution of interest in the HKT Group	33(b)	10,104	(1,420)	8,684	–
		7,534	(1,455)	6,079	(2,570)
At December 31, 2011		6,104	1,476	7,580	28,179

In HK$ million	Note(s)	The Group **2012** **Attributable to equity holders of the Company**	The Group **2012** **Non-controlling interests**	The Group **2012** **Total equity**	The Company **2012** **Total equity**
At January 1, 2012		**6,104**	**1,476**	**7,580**	**28,179**
Total comprehensive income for the year					
Profit for the year		**1,663**	**904**	**2,567**	**1,458**
Total other comprehensive income		**29**	**10**	**39**	**(49)**
		1,692	**914**	**2,606**	**1,409**
Total contributions by and distributions to equity owners recognized in equity					
Purchase of shares of PCCW Limited ("PCCW Shares") under share award schemes		**(26)**	**–**	**(26)**	**–**
Purchase of share stapled units of HKT Trust and HKT Limited ("Share Stapled Units") under Share Stapled Units award schemes		**(5)**	**(2)**	**(7)**	**–**
Employee share-based compensation		**16**	**1**	**17**	**–**
Dividend paid in respect of previous year	14 & 33	**(771)**	**–**	**(771)**	**(771)**
Dividend declared and paid in respect of the current year	14 & 33	**(401)**	**–**	**(401)**	**(401)**
Dividend declared and paid to non-controlling shareholders of subsidiaries		**–**	**(595)**	**(595)**	**–**
Gain arising from distributions in specie of Share Stapled Units	14	**1,625**	**(182)**	**1,443**	**–**
Increase in interests in subsidiaries	43	**745**	**(2,304)**	**(1,559)**	**–**
Contribution from non-controlling interests of a subsidiary		**–**	**30**	**30**	**–**
		1,183	**(3,052)**	**(1,869)**	**(1,172)**
At December 31, 2012		**8,979**	**(662)**	**8,317**	**28,416**

The notes on pages 59 to 145 form part of these consolidated financial statements.

CONSOLIDATED AND COMPANY BALANCE SHEETS

As at December 31, 2012

In HK$ million	Note(s)	The Group 2011	The Group 2012	The Company 2011	The Company 2012
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	16	15,477	**15,534**	–	**–**
Investment properties	17	5,384	**5,804**	–	**–**
Interests in leasehold land	18	530	**512**	–	**–**
Properties held for/under development	19	1,105	**1,146**	–	**–**
Goodwill	20	3,170	**3,371**	–	**–**
Intangible assets	21	2,812	**3,385**	–	**–**
Investments in subsidiaries	22	–	**–**	12,089	**12,089**
Interests in associates	23	402	**591**	–	**–**
Interests in jointly controlled companies	24	515	**539**	–	**–**
Held-to-maturity investments		2	**1**	–	**–**
Available-for-sale financial assets	25	575	**685**	–	**–**
Derivative financial instruments	29	275	**253**	–	**–**
Deferred income tax assets	34(a)	148	**703**	–	**–**
Other non-current assets		514	**546**	–	**–**
		30,909	**33,070**	12,089	**12,089**
Current assets					
Properties for sale	19	455	**214**	–	**–**
Amounts due from subsidiaries	22(a)	–	**–**	17,423	**17,756**
Sales proceeds held in stakeholders' accounts	26(a)	632	**678**	–	**–**
Restricted cash	26(b)	735	**1,319**	32	**–**
Prepayments, deposits and other current assets	26(c)	3,497	**4,775**	10	**32**
Inventories	26(d)	1,166	**1,084**	–	**–**
Amounts due from related companies	5(c)	–	**93**	–	**–**
Derivative financial instruments	29	–	**4**	–	**–**
Trade receivables, net	26(e)	3,084	**4,041**	–	**–**
Tax recoverable		7	**13**	–	**–**
Cash and cash equivalents	36(c)	5,365	**4,553**	87	**888**
		14,941	**16,774**	17,552	**18,676**
Current liabilities					
Short-term borrowings	26(f)	(40)	**(8,540)**	–	**–**
Trade payables	26(g)	(1,777)	**(2,380)**	–	**–**
Accruals and other payables		(4,134)	**(4,129)**	(19)	**(11)**
Amount payable to the Government under the Cyberport Project Agreement	28	(603)	**(959)**	–	**–**
Carrier licence fee liabilities	35	(187)	**(196)**	–	**–**
Amounts due to related companies	5(c)	(27)	**(136)**	–	**–**
Advances from customers		(1,750)	**(1,903)**	–	**–**
Current income tax liabilities		(786)	**(1,169)**	–	**–**
Dividend payable	14 & 33	(1,443)	**–**	(1,443)	**–**
		(10,747)	**(19,412)**	(1,462)	**(11)**
Net current assets/(liabilities)		4,194	**(2,638)**	16,090	**18,665**
Total assets less current liabilities		35,103	**30,432**	28,179	**30,754**

In HK$ million	Note	The Group 2011	The Group 2012	The Company 2011	The Company 2012
Non-current liabilities					
Long-term borrowings	27	(23,470)	**(17,926)**	–	**–**
Amount due to a subsidiary	22(b)	–	**–**	–	**(2,282)**
Derivative financial instruments	29	–	**(56)**	–	**(56)**
Deferred income tax liabilities	34(a)	(2,222)	**(2,321)**	–	**–**
Deferred income		(893)	**(989)**	–	**–**
Defined benefit liability	31(a)(i)	(3)	**(3)**	–	**–**
Carrier licence fee liabilities	35	(815)	**(719)**	–	**–**
Other long-term liabilities		(120)	**(101)**	–	**–**
		(27,523)	**(22,115)**	–	**(2,338)**
Net assets		7,580	**8,317**	28,179	**28,416**
CAPITAL AND RESERVES					
Share capital	30	1,818	**1,818**	1,818	**1,818**
Reserves	33	4,286	**7,161**	26,361	**26,598**
Equity attributable to equity holders of the Company		6,104	**8,979**	28,179	**28,416**
Non-controlling interests		1,476	**(662)**	–	**–**
Total equity		7,580	**8,317**	28,179	**28,416**

Approved and authorized for issue by the Board of Directors on February 27, 2013 and signed on behalf of the Board by

Chan Ching Cheong, George
Director

Hui Hon Hing, Susanna
Director

The notes on pages 59 to 145 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2012

In HK$ million	Note	2011	**2012**
NET CASH GENERATED FROM OPERATING ACTIVITIES	36(a)	6,778	**6,168**
INVESTING ACTIVITIES			
Proceeds from disposals of property, plant and equipment		23	**9**
Purchases of property, plant and equipment		(1,960)	**(2,236)**
Payment for investment properties		(27)	**(19)**
Purchases of intangible assets		(1,902)	**(2,524)**
Net outflow of cash and cash equivalents in respect of additions upon business combinations	36(b)	–	**(220)**
Settlement of obligation assumed upon business combinations	36(b)	–	**(121)**
Acquisition of associates		(56)	**–**
Acquisition of jointly controlled companies		(7)	**–**
Capital contribution to associates		(28)	**(29)**
Capital contribution to a jointly controlled company		–	**(4)**
Loan to an associate		(71)	**(139)**
Loan to a jointly controlled company		(41)	**(71)**
Purchases of available-for-sale financial assets		(229)	**(129)**
Proceeds from return of investments of available-for-sale financial assets		31	**10**
Proceeds from repayment of held-to-maturity investments		–	**1**
Interest received		154	**–**
Dividend received from associates		40	**12**
Consideration paid to acquire non-controlling interests of subsidiaries	43	–	**(1,559)**
NET CASH USED IN INVESTING ACTIVITIES		(4,073)	**(7,019)**
FINANCING ACTIVITIES			
Proceeds from dilution of interest in the HKT Group		9,302	**–**
Listing expenses paid		(360)	**(167)**
Finance fees paid for new borrowings raised		–	**(111)**
New borrowings raised		6,251	**6,747**
Interest paid		(1,528)	**(840)**
Repayments of borrowings		(17,975)	**(3,884)**
Dividends paid to shareholders of the Company		(1,127)	**(1,172)**
Dividends paid to non-controlling shareholders of subsidiaries		(35)	**(595)**
Decrease in restricted cash		–	**32**
Contribution from non-controlling interests of a subsidiary		–	**30**
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES		(5,472)	**40**
NET DECREASE IN CASH AND CASH EQUIVALENTS		(2,767)	**(811)**
Exchange differences		31	**(1)**
CASH AND CASH EQUIVALENTS			
Beginning of year		8,101	**5,365**
End of year	36(c)	5,365	**4,553**

The notes on pages 59 to 145 form part of these consolidated financial statements.

1 GENERAL INFORMATION

PCCW Limited (the "Company") was incorporated in the Hong Kong Special Administrative Region ("Hong Kong") and its securities have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since October 18, 1994. The address of its registered office is 41st Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong. The principal activities of the Company and its subsidiaries (together the "Group") are the provision of local, mobile and international telecommunications services, Internet access services, interactive multimedia and pay-TV services, the sale and rental of telecommunications equipment, and the provision of computer, engineering and other technical services primarily in Hong Kong, and also in mainland China and elsewhere in the Asia Pacific region; investments in, and development of, systems integration, network engineering, and technology-related businesses; and investments in, and development of, infrastructure and properties in Hong Kong, mainland China and elsewhere in the Asia Pacific region.

2 GLOBAL OFFERING OF HKT TRUST AND HKT LIMITED DURING THE YEAR ENDED DECEMBER 31, 2011

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

During the year ended December 31, 2011, PCCW declared a conditional special dividend to be satisfied by way of two distributions in specie of Share Stapled Units representing an aggregate of approximately 5% of the Share Stapled Units in issue immediately following the completion of the HKT Trust Global Offering ("Distributions in Specie"). The Distributions in Specie became unconditional upon the listing of Share Stapled Units on the Main Board of the Stock Exchange on November 29, 2011. After the settlement of the Distributions in Specie during the year ended December 31, 2012 as set out in note 14, the Group's interest in the HKT Group was further diluted to approximately 63.1%.

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

a. Statement of compliance

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

b. Basis of preparation of the financial statements

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

- HKFRS 1 (Revised) (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 or revised standard or interpretation that is not yet effective for the current accounting period, details of which are set out in note 44.

The consolidated financial statements for the year ended December 31, 2012 comprise the financial statements of the Company and its subsidiaries, and the Group's interests in associates and jointly controlled companies.

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

- investment properties (see note 3(g));
- available-for-sale financial assets (see note 3(m)(iii)); and
- derivative financial instruments (see note 3(o)).

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

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

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

c. Subsidiaries and non-controlling interests

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

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

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

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

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

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

c. Subsidiaries and non-controlling interests *(continued)*

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

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

Adjustments have been made to the financial statements of the subsidiaries when necessary to align their accounting policies to ensure consistency with policies adopted by the Group.

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

In the Company's balance sheet, investments in subsidiaries are stated at cost less impairment losses (see note 3(n)(ii)). Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

d. Associates

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

Investments in associates are accounted for in the consolidated financial statements under the equity method and are initially recorded at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss and adjusted thereafter for the post-acquisition change in the Group's share of the associates' net assets. The consolidated income statement includes the Group's share of post-acquisition, post-tax results of the associates and any impairment losses for the year. The consolidated statement of comprehensive income includes the Group's share of the post-acquisition post-tax items of the associates' other comprehensive income.

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

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

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

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

Adjustments have been made to the financial statements of the associates when necessary to align their accounting policies to ensure consistency with policies adopted by the Group.

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

e. Jointly controlled companies

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

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

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

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

Adjustments have been made to the financial statements of the jointly controlled companies when necessary to align their accounting policies to ensure consistency with policies adopted by the Group.

f. Property, plant and equipment

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 3(n)(ii)):

- buildings held for own use which are situated on leasehold/freehold land, where the fair value of the building could be measured separately from the fair value of the leasehold/freehold land at the inception of the lease (see note 3(h)); and

- other items of plant and equipment.

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

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

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

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

Land and buildings	Over the shorter of the unexpired term of land lease and the estimated useful lives
Exchange equipment	5 to 12 years
Transmission plant	5 to 30 years
Other plant and equipment	Over the shorter of 1 to 17 years and the term of lease

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

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

g. Investment properties

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

Investment properties are stated in the balance sheet at fair value, based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset, determined annually by independent qualified valuers. The fair value of investment properties reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognized in the income statement. Rental income from investment properties is accounted for as described in note 3(x)(iv).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 3(h)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 3(h).

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

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

h. Leased assets

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

i. Classification of assets leased to the Group

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, except for property held under operating leases that would otherwise meet the definition of an investment property, which is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 3(g)).

ii. Assets leased out under operating leases

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 3(f). Impairment losses are accounted for in accordance with the accounting policy as set out in note 3(n)(ii). Revenue arising from operating leases is recognized in accordance with the Group's revenue recognition policies, as set out in note 3(x)(iv).

iii. Operating lease charges

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

The cost of acquiring land held under an operating lease is stated in the balance sheet as "Interests in leasehold land" and is amortized to the income statement on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 3(g)) or is held for development (see note 3(i)).

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

i. Properties held for/under development

Properties under development are carried at the lower of cost and the estimated net realizable value. Cost includes original land acquisition costs, costs of land use rights, construction expenditure incurred and other direct development costs attributable to such properties, including interest incurred on loans directly attributable to the development prior to the completion of construction. The net realizable value is determined by reference to estimated sale proceeds of properties sold in the ordinary course of business less all estimated selling expenses.

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

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

j. Properties for sale

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

k. Goodwill

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

Goodwill is stated in the consolidated balance sheet at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units ("CGUs") and is tested annually for impairment (see note 3(n)(ii)). In respect of associates and jointly controlled companies, the carrying amount of goodwill is included in the carrying amount of the interests in associates and jointly controlled companies.

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

l. Intangible assets (other than goodwill)

i. Customer acquisition costs

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

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

ii. Carrier licences

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

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

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

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

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

iii. Capitalized programme costs

Costs incurred to produce or acquire television rights for which the Group can determine the broadcasting schedules, are capitalized as "intangible assets". The intangible assets are amortized on an accelerated basis over the shorter of the expected economic life of 1–4 years and the licence period. Other costs incurred for the transmission rights for showing programmes, sports events and films on the Group's television channels, including sport rights for multiple seasons or competitions, of which the broadcasting schedules are determined by the content providers, are recognized in the income statement on a straight-line basis over the period of transmission rights across the season or competition. Other payments made in advance or in arrears of programme costs recognized are stated in the balance sheet as "Prepayments, deposits and other current assets" or "Accruals and other payables", as appropriate.

iv. Software

Costs incurred to acquire, develop or enhance scientific or technical knowledge, design and implementation of new process or systems are capitalized as "intangible assets" if they are identifiable and the Group has power to obtain future economic benefits flowing from the underlying resource.

Development costs that are directly attributable to the design and testing of the identifiable software are capitalized as intangible assets if the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- adequate technical, financial and other resources are available to complete the development and to use the software;
- the costs attributable to acquisition, development and enhancement of the software can be reliably measured; and
- the Group has power to obtain future economic benefits flowing from the underlying resource.

Development costs that do not meet the above criteria are expensed in the income statement as incurred.

Capitalized software costs are amortized on a straight-line basis over the estimated useful life of 7 years.

v. Other intangible assets

Other intangible assets that are acquired by the Group are stated in the consolidated balance sheet at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (see note 3(n)(ii)). Expenditures on internally generated goodwill and brands are recognized as expenses in the period in which they are incurred.

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

Trademarks	2 to 20 years
Content licence	10 years
Wireless broadband licence	Over the term of licence

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

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

m. Investments in debt and equity securities

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

Investments in debt and equity securities are initially recognized at fair value plus transaction costs, except as indicated otherwise below. The fair value of quoted investments is based on current bid price. For unlisted securities or financial assets without an active market, the Group established fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs. If none of the valuation techniques results in a reasonable estimate on the fair value, the investment is stated in the balance sheet at cost less impairment losses (see note 3(n)(i)). The investments are subsequently accounted for based on their classification as set out below:

i. Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are classified as current assets, if they are either held for trading or are expected to be realized within 12 months from the balance sheet date. Any attributable transaction costs are recognized in the income statement as incurred. At each balance sheet date, the fair value is re-measured, with any unrealized holding gains or losses arising from the changes in fair value being recognized in the income statement in the period in which they arise. The net gain or loss recognized in the income statement does not include any interest earned or dividends on the financial assets as these are recognized in accordance with the policies set out in notes 3(x)(vi) and 3(x)(viii) respectively.

ii. Held-to-maturity investments

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

Held-to-maturity investments are stated in the balance sheet at amortized cost less impairment losses (see note 3(n)(i)).

iii. Available-for-sale financial assets

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

At each balance sheet date, the fair value of available-for-sale financial assets is re-measured, with any unrealized holding gains or losses arising from the changes in fair value being recognized in other comprehensive income and accumulated separately in the available-for-sale financial assets reserve under equity, except for impairment losses (see note 3(n)(i)) and, in the case of monetary items such as debt securities, foreign exchange gains and losses which are recognized directly in the income statement. Dividend income from these investments is recognized in the income statement in accordance with the policy set out in note 3(x)(viii) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognized in the income statement in accordance with the policy set out in note 3(x)(vi). When the investments are derecognized or impaired (see note 3(n)(i)), the cumulative gain or loss previously recognized directly in the equity is recognized in the income statement.

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

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

n. Impairment of assets

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

Investments in debt and equity securities (other than investments in subsidiaries, associates and jointly controlled companies: see note 3(n)(ii)) and other current and non-current receivables that are stated at cost or amortized cost or are classified as available-for-sale financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganization; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets.

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

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

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

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

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

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

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

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

n. Impairment of assets *(continued)*

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

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

ii. Impairment of other assets

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

– property, plant and equipment;

– interests in leasehold land;

– intangible assets;

– investments in associates and jointly controlled companies;

– goodwill; and

– investments in subsidiaries (at Company level).

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

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

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

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

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

n. Impairment of assets *(continued)*

iii. Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange, the Group is required to prepare an interim financial report in compliance with HKAS 34 "Interim Financial Reporting", in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 3(n)(i) and 3(n)(ii)).

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

o. Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each balance sheet date. The gain or loss on remeasurement to fair value is recognized immediately in the income statement, except where the derivatives are designated and qualify for hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 3(p)).

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

p. Hedging

i. Fair value hedge

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

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

ii. Cash flow hedge

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

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

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

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

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

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

q. Inventories

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

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

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

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

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

r. Construction contracts

The accounting policy for contract revenue is set out in note 3(x)(v). When the outcome of a construction contract can be estimated reliably, contract costs are recognized as an expense by reference to the stage of completion of the contract at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable and the contract costs are recognized as an expense in the period in which they are incurred.

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

s. Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method, less allowance for impairment of doubtful debts (see note 3(n)(i)).

t. Cash and cash equivalents

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

u. Trade and other payables

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

v. Borrowings

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

w. Provisions and contingent liabilities

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

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

x. Revenue recognition

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

i. Telecommunications and other services

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

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

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

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

ii. Sales of goods

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

iii. Sales of properties

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

For pre-completion contracts for the sale of development properties under development for which legally binding unconditional sales contracts were entered, revenue and profits are recognized upon completion of the development and when significant risks and rewards of ownership have been transferred. Deposits and instalments received from purchasers prior to this stage are included in current liabilities.

iv. Rental income from operating leases

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

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

x. Revenue recognition *(continued)*

v. Contract revenue

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

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

vi. Interest income

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

vii. Commission income

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

viii. Dividend income

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

y. Borrowing costs

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

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

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

z. Income tax

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

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

z. Income tax *(continued)*

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

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

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

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

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

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

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

  - the same taxable entity; or

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

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

aa. Employee benefits

i. Short-term employee benefits

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

ii. Retirement benefits

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

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

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

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

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

iii. Share-based payments

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

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

aa. Employee benefits *(continued)*

iii. Share-based payments *(continued)*

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

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

iv. Termination benefits

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

bb. Translation of foreign currencies

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

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

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

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

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

bb. Translation of foreign currencies *(continued)*

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

cc. Related parties

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

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

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

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

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

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

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

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

dd. Segment reporting

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

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

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (including property, plant and equipment and interests in leasehold land) that are expected to be used for more than one year.

ee. Dividend distribution

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Key sources of estimation uncertainty

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

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

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

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

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

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

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

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

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

Key sources of estimation uncertainty *(continued)*

iii. Revenue recognition

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

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

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

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

iv. Sales recognition on properties sold

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

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

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

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

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

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

The estimated cost of developing the Cyberport project, including construction costs and the amounts paid and payable to the Government, is allocated to the cost of properties sold on a systematic basis over the life of the project using a relative value approach. This approach considers the value of development costs attributable to phases for which revenue has been recognized to date relative to the total expected value of development costs for the development as a whole. The revision of estimates of these relative values during the year ended December 31, 2012 has resulted in the costs of properties sold recorded in the year ended December 31, 2012 being decreased by HK$59 million.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

Key sources of estimation uncertainty *(continued)*

vi. Deferred income tax

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

vii. Current income tax

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

viii. Recognition of intangible asset – Carrier licences

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

ix. Estimated valuation of investment properties

The best evidence of fair value is current prices in an active market for similar leases and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair values estimates. In making its estimates, the Group considers both (i) information from the valuations of investment properties performed by external professional valuers by using the market value approach and (ii) other principal assumptions including the receipt of contractual rentals, expected future market rentals in view of the current usage and condition of the investment properties, supported by the terms of any existing leases and other contracts, and discount rates to determine the fair value of the investment properties. Had the Group used different future market rentals, discount rates and other assumptions, the fair value of the investment properties would be different and thus caused impact to the consolidated income statement. As at December 31, 2012, the fair value of the investment properties was HK$5,804 million.

x. Recognition and fair value of identifiable intangible assets through business combination

The Group applies the acquisition method of accounting to account for acquisitions of businesses. In business combinations of multiple companies or businesses, HKFRS 3 (revised), "Business Combinations", requires that one of the businesses that existed before the combination shall be identified as the accounting acquirer on the basis of the evidence available. Identification of the accounting acquirer requires significant judgement and it involves the considerations of the relative size of the combining businesses' revenues and assets and the management structure to determine the appropriate accounting acquirer.

The cost of an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred, equity instruments issued, and costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair values as of the acquisition date. The excess of the cost of the acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

Key sources of estimation uncertainty *(continued)*

x. **Recognition and fair value of identifiable intangible assets through business combination** *(continued)*

The determination and allocation of fair values to the identifiable assets acquired and liabilities assumed is based on various assumptions and valuation methodologies requiring considerable management judgement. The most significant variables in these valuations are discount rates, terminal values, the number of years on which the cash flow projections are based, as well as the assumptions and estimates used to determine the cash inflows and outflows. Management determines discount rates to be used based on the risk inherent in the related activity's current business model and industry comparisons. Terminal values are based on the expected life of products and forecasted life cycle and forecasted cash flows over that period. Although the assumptions applied in the determination are reasonable based on information available at the date of acquisition, actual results may differ from the forecasted amounts and the difference could be material.

Upon an acquisition of a business it is necessary to attribute fair values to any intangible assets acquired (provided they meet the criteria to be recognized). The fair values of these intangible assets are dependent on estimates of attributable future revenue, margin, cash flow, useful lives and discount rate used.

5 RELATED PARTY TRANSACTIONS

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

In HK$ million		The Group	
	Note	2011	**2012**
Telecommunications service fees, facility management service charges, consultancy service charges and interest income received or receivable from jointly controlled companies and associates	a	66	**151**
Telecommunications service fees and systems integration charges received or receivable from a substantial shareholder	a	372	**263**
Telecommunications service fees, outsourcing fees and rental charges paid or payable to a jointly controlled company	a	300	**307**
Telecommunications service fees and facility management service charges paid or payable to a substantial shareholder	a	270	**143**
Key management compensation	b	80	**53**

During the year ended December 31, 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 to 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.

5 RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

b. Details of key management compensation

In HK$ million	The Group 2011	**2012**
Salaries, share-based compensation and other short-term employee benefits	78	**51**
Post-employment benefits	2	**2**
	80	**53**

c. Amounts due from/(to) related companies

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

6 TURNOVER

In HK$ million	The Group 2011	**2012**
Telecommunications and other service revenue	20,378	**22,197**
Amounts received and receivable in respect of goods sold	2,272	**2,049**
Amounts received and receivable in respect of properties sold	1,710	**791**
Amounts received and receivable from rental of investment properties	278	**281**
	24,638	**25,318**

7 SEGMENT INFORMATION

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

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

– 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.

7 SEGMENT INFORMATION *(CONTINUED)*

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, interests in leasehold land and intangible assets, 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.

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

In HK$ million	2011						
	HKT	Media Business	Solutions Business	Other Businesses	PCPD	Eliminations	Consolidated
REVENUE							
External revenue	19,387	1,584	1,483	74	2,110	–	24,638
Inter-segment revenue *(Note a)*	438	1,123	726	–	16	(2,303)	–
Total revenue	19,825	2,707	2,209	74	2,126	(2,303)	24,638
RESULTS							
EBITDA	7,411	631	383	(842)	333	(331)	7,585
OTHER INFORMATION							
Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year, excluding additions upon business combinations	1,600	162	27	91	111	–	1,991

7 SEGMENT INFORMATION *(CONTINUED)*

In HK$ million	2012						
	HKT	Media Business	Solutions Business	Other Businesses	PCPD	Eliminations	Consolidated
REVENUE							
External revenue	20,695	1,639	1,740	71	1,173	–	25,318
Inter-segment revenue *(Note a)*	386	1,169	737	–	11	(2,303)	–
Total revenue	21,081	2,808	2,477	71	1,184	(2,303)	25,318
RESULTS							
EBITDA	7,669	491	435	(583)	107	(331)	7,788
OTHER INFORMATION							
Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year, excluding additions upon business combinations	1,945	113	106	96	15	–	2,275

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

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

In HK$ million	The Group	
	2011	**2012**
Total segment EBITDA	7,585	**7,788**
Gain/(Loss) on disposal of property, plant and equipment and intangible assets, net	1	**(13)**
Depreciation and amortization	(3,949)	**(4,421)**
Other gains, net	143	**371**
Interest income	71	**62**
Finance costs	(1,565)	**(966)**
Share of results of associates and jointly controlled companies	32	**(22)**
Profit before income tax	2,318	**2,799**

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

In HK$ million	Revenue from external customers	
	2011	**2012**
Hong Kong (place of domicile)	20,776	**20,198**
Mainland China (excluding Hong Kong) and Taiwan	2,013	**2,117**
Others	1,849	**3,003**
	24,638	**25,318**

The total non-current assets other than financial instruments and deferred income tax assets located in Hong Kong is HK$20,394 million (2011: HK$19,403 million), and the total of these non-current assets located in other countries is HK$11,034 million (2011: HK$10,506 million).

8 OTHER GAINS, NET

In HK$ million	The Group 2011	**2012**
Fair value gains on investment properties	25	**349**
Recovery of impairment loss on an interest in the JV *(note 5)*	104	**–**
Impairment loss on an interest in a jointly controlled company	(16)	**–**
Net gains on cash flow hedging instruments transferred from equity	39	**13**
Others	(9)	**9**
	143	**371**

9 PROFIT BEFORE INCOME TAX

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

a. Staff costs

In HK$ million	The Group 2011	**2012**
Retirement costs for directors	2	**1**
Retirement costs for other staff		
– pension income for defined benefit retirement schemes *(note 31(a)(v))*	(1)	**–**
– contributions to defined contribution retirement scheme	243	**267**
	244	**268**
Share-based compensation expenses	–	**17**
Salaries, bonuses and other benefits	2,375	**2,137**
	2,619	**2,422**

9 PROFIT BEFORE INCOME TAX *(CONTINUED)*

b. Other items

In HK$ million	The Group 2011	2012
Crediting:		
Gain on disposal of property, plant and equipment, net	1	**–**
Gross rental income	278	**281**
Less: Outgoings	(20)	**(27)**
Charging:		
Impairment loss for doubtful debts	169	**186**
Provision for inventory obsolescence	10	**7**
Depreciation of property, plant and equipment	2,549	**2,482**
Amortization of land lease premium		
– interests in leasehold land	22	**22**
Amortization of intangible assets	1,378	**1,917**
Cost of inventories sold	2,272	**2,029**
Cost of properties sold	1,219	**547**
Cost of sales, excluding inventories and properties sold	7,906	**9,240**
Loss on disposal of property, plant and equipment and intangible assets, net	–	**13**
Exchange losses/(gains), net	13	**(32)**
Less: Cash flow hedges: transferred from equity	(11)	**41**
Auditors' remuneration	23	**25**
Operating lease rental		
– equipment	21	**61**
– other assets (including property rentals)	601	**753**

10 FINANCE COSTS

In HK$ million	The Group 2011	2012
Interest paid/payable for:		
Overdrafts and bank borrowings wholly repayable within 5 years	478	**318**
Other borrowings wholly repayable within 5 years	1,026	**525**
Other borrowings not wholly repayable within 5 years	–	**82**
Notional accretion on carrier licence fee liabilities	80	**74**
Other borrowing costs	7	**1**
Cash flow hedges: transferred from equity	1	**1**
Fair value gains on derivative financial instruments on fair value hedges	(198)	**(31)**
Fair value adjustment of borrowings attributable to interest rate risk	202	**35**
	1,596	**1,005**
Interest capitalized in property, plant and equipment	(31)	**(39)**
	1,565	**966**

The capitalization rate used to determine the amount of interest eligible for capitalization for the year ranged from 4.54% to 4.70% (2011: 4.43% to 6.22%).

11 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Details of directors' emoluments are set out below:

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

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

Notes:

1 Bonus amounts shown above represent 2010 bonuses and a portion of 2011 bonuses, which were paid in 2011.
2 Resigned as an executive director with effect from November 29, 2011.
3 Excludes remuneration for duties performed for related companies.
4 Appointed as an executive director with effect from November 29, 2011.
5 Fee receivable as a non-executive director in 2011 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Lu Yimin and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
6 Resigned as a non-executive director with effect from November 29, 2011.
7 Fee receivable as a non-executive director in 2011 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Zuo Xunsheng and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
8 Fee receivable as a non-executive director in 2011 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Li Fushen and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
9 Appointed as a non-executive director with effect from November 29, 2011.
10 Fee receivable as a non-executive director in 2011 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Li Gang and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
11 Resigned as an independent non-executive director with effect from November 29, 2011.
12 Includes HK$105,000 fee as Chairman of Nomination Committee, HK$105,000 fee as Chairman of Audit Committee and HK$9,493 as Chairman of Remuneration Committee.
13 Includes HK$95,938 fee as Chairman of Remuneration Committee.
14 Appointed as an independent non-executive director with effect from November 29, 2011.

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

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

In HK$ million

The Group
2012

	Directors' fees		Salaries, allowances and benefits in kind		Bonuses[1]		Retirement scheme contributions		Share-based compensation		Total	
	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD
Executive directors												
Li Tzar Kai, Richard	–	–	–	–	–	–	–	–	–	–	–	–
Chan Ching Cheong, George	–	–	10.31	–	–	–	0.01	–	7.14	–	17.46	–
Hui Hon Hing, Susanna	–	–	6.54	–	4.63	–	0.41	–	–	–	11.58	–
Lee Chi Hong, Robert	–	–	–	7.80	–	–	–	0.82	–	–	–	8.62
Non-executive directors												
Sir David Ford	–	–	1.27	–	–	–	–	–	–	–	1.27	–
Lu Yimin	0.21[2]	–	–	–	–	–	–	–	–	–	0.21	–
Li Fushen	0.21[3]	–	–	–	–	–	–	–	–	–	0.21	–
Li Gang	0.21[4]	–	–	–	–	–	–	–	–	–	0.21	–
Tse Sze Wing, Edmund	0.21	–	–	–	–	–	–	–	–	–	0.21	–
Wei Zhe, David[5]	0.21	–	–	–	–	–	–	–	–	–	0.21	–
Independent non-executive directors												
Dr The Hon Sir David Li Kwok Po	0.21	–	–	–	–	–	–	–	–	–	0.21	–
Aman Mehta	0.53[6]	–	0.53	–	–	–	–	–	–	–	1.06	–
Frances Waikwun Wong[7]	0.18	–	–	–	–	–	–	–	–	–	0.18	–
Bryce Wayne Lee[8]	0.14	–	0.26	–	–	–	–	–	–	–	0.40	–
Lars Eric Nils Rodert[9]	0.02	–	0.13	–	–	–	–	–	–	–	0.15	–
	2.13	–	19.04	7.80	4.63	–	0.42	0.82	7.14	–	33.36	8.62

Notes:

1 Bonus amounts shown above represent the portion of 2011 bonuses that were paid in 2012.

2 Fee receivable as a non-executive director in 2012 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Lu Yimin and China United Network Communications Group Company Limited, a substantial shareholder of the Company.

3 Fee receivable as a non-executive director in 2012 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Li Fushen and China United Network Communications Group Company Limited, a substantial shareholder of the Company.

4 Fee receivable as a non-executive director in 2012 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Li Gang and China United Network Communications Group Company Limited, a substantial shareholder of the Company.

5 Re-designated as a non-executive director with effect from May 4, 2012.

6 Includes HK$105,000 fee as Chairman of Nomination Committee, HK$105,000 fee as Chairman of Audit Committee and HK$105,000 fee as Chairman of Remuneration Committee.

7 Appointed as an independent non-executive director with effect from March 1, 2012.

8 Appointed as an independent non-executive director with effect from May 4, 2012.

9 Appointed as an independent non-executive director with effect from November 30, 2012.

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

b. Individuals with highest emoluments

i. Of the five individuals with the highest emoluments, two (2011: three) are directors of the Company whose emoluments are disclosed in note 11(a). The emoluments in respect of the three (2011: two) non-director individuals were as follows:

In HK$ million	The Group 2011	**2012**
Salaries, allowances and benefits in kind	6.61	**34.47**
Bonuses	6.24	**17.94**
Retirement scheme contributions	0.53	**2.85**
	13.38	**55.26**

ii. The emoluments of the three (2011: two) non-director individuals were within the following emolument ranges:

	The Group Number of individuals 2011	**2012**
HK$6,500,001 – HK$7,000,000	2	**–**
HK$9,500,001 – HK$10,000,000	–	**1**
HK$14,500,001 – HK$15,000,000	–	**1**
HK$30,500,001 – HK$31,000,000	–	**1**
	2	**3**

12 INCOME TAX

a. Income tax in the consolidated income statement represents:

In HK$ million	The Group 2011	**2012**
Hong Kong profits tax		
– provision for current year	488	**636**
– over provision in respect of prior years	(18)	**(8)**
Overseas tax		
– provision for current year	58	**50**
– under provision in respect of prior years	–	**18**
Movement of deferred income tax *(note 34(a))*	14	**(464)**
	542	**232**

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits for the year.

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

12 INCOME TAX *(CONTINUED)*

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

In HK$ million	The Group 2011	2012
Profit before income tax	2,318	**2,799**
Notional tax on profit before income tax, calculated at applicable tax rate	382	**462**
Effect of different tax rates of subsidiaries operating overseas	62	**58**
Income not subject to tax	(35)	**(16)**
Expenses not deductible for tax purposes	163	**158**
Tax losses not recognized	141	**216**
(Over)/under provision in prior years, net	(18)	**10**
Utilization of previously unrecognized tax losses	(74)	**(64)**
Recognition of previously unrecognized tax losses	(74)	**(596)**
(Income not subject to tax)/loss not deductible for associates and jointly controlled companies	(5)	**4**
Income tax expense	542	**232**

13 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Profit of HK$1,458 million (2011: HK$169 million) attributable to equity holders of the Company was dealt with in the financial statements of the Company.

14 DIVIDENDS

In HK$ million	2011	2012
Interim dividend declared and paid in respect of current year of 5.51 HK cents (2011: 5.30 HK cents) per ordinary share	385	**401**
Final dividend declared in respect of previous financial year, approved and paid during the year of 10.60 HK cents (2011: 10.20 HK cents) per ordinary share	742	**771**
Special dividend in specie	1,443	**–**
	2,570	**1,172**
Final dividend proposed after the balance sheet date of 13.55 HK cents (2011: 10.60 HK cents) per ordinary share	771	**985**

During the year ended December 31, 2011, PCCW recorded an estimated dividend payable of approximately HK$1,443 million, 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 upon the listing of the Share Stapled Units on the Main Board of the Stock Exchange on November 29, 2011.

During the year, 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.

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

15 EARNINGS PER SHARE

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

	2011	2012
Earnings (in HK$ million)		
Earnings for the purpose of basic and diluted earnings per share	1,607	**1,663**
Number of shares		
Number of ordinary shares at beginning of year	7,272,294,654	**7,272,294,654**
Effect of share purchased from the market under the Company's share award schemes	–	**(9,092,300)**
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	7,272,294,654	**7,263,202,354**

16 PROPERTY, PLANT AND EQUIPMENT

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

16 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

In HK$ million	The Group 2012					
	Land and buildings	**Exchange equipment**	**Transmission plant**	**Other plant and equipment**	**Projects under construction**	**Total**
Cost						
Beginning of year	**1,338**	**12,077**	**15,335**	**11,170**	**697**	**40,617**
Additions	**5**	**273**	**174**	**364**	**1,459**	**2,275**
Additions upon business combinations	**4**	**41**	**121**	**24**	**–**	**190**
Transfers	**–**	**176**	**118**	**165**	**(508)**	**(49)**
Disposals	**(1)**	**(544)**	**(11)**	**(177)**	**–**	**(733)**
Exchange differences	**(12)**	**82**	**81**	**2**	**–**	**153**
End of year	**1,334**	**12,105**	**15,818**	**11,548**	**1,648**	**42,453**
Accumulated depreciation and impairment						
Beginning of year	**362**	**8,514**	**7,863**	**8,394**	**7**	**25,140**
Charge for the year	**49**	**944**	**821**	**668**	**–**	**2,482**
Transfers	**–**	**(49)**	**–**	**–**	**–**	**(49)**
Disposals	**–**	**(529)**	**(11)**	**(172)**	**–**	**(712)**
Exchange differences	**(1)**	**54**	**6**	**(1)**	**–**	**58**
End of year	**410**	**8,934**	**8,679**	**8,889**	**7**	**26,919**
Net book value						
End of year	**924**	**3,171**	**7,139**	**2,659**	**1,641**	**15,534**
Beginning of year	**976**	**3,563**	**7,472**	**2,776**	**690**	**15,477**

Certain property, plant and equipment with an aggregate carrying value of approximately HK$42 million (2011: HK$67 million) were pledged as security for certain bank borrowings of the Group as at December 31, 2012. Please refer to note 41 for details of the Group's bank loan facilities.

16 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

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

In HK$ million	The Group 2011	The Group **2012**
Held in Hong Kong		
On long-term lease (over 50 years)	98	**93**
On medium-term lease (10–50 years)	719	**681**
Held outside Hong Kong		
Freehold	122	**110**
Leasehold		
On medium-term lease (10–50 years)	37	**40**
	976	**924**

In HK$ million	The Company 2011 Other plant and equipment	The Company **2012 Other plant and equipment**
Cost		
Beginning of year	2	**–**
Disposals	(2)	**–**
End of year	–	**–**
Accumulated depreciation and impairment		
Beginning of year	2	**–**
Disposals	(2)	**–**
End of year	–	**–**
Net book value		
Beginning and end of year	–	**–**

17 INVESTMENT PROPERTIES

In HK$ million	The Group 2011	2012
Beginning of year	5,085	**5,384**
Additions	35	**19**
Exchange differences	239	**52**
Fair value gains	25	**349**
End of year	5,384	**5,804**

The majority of the investment properties are held outside Hong Kong and they were revalued as at December 31, 2012 by an independent valuer, who is a fellow of the Royal Institution of Chartered Surveyors, on a market value basis.

In the consolidated income statement, cost of sales includes HK$27 million (2011: HK$20 million) direct operating expenses relating to investment properties that generate rental income and HK$4 million (2011: HK$5 million) direct operating expenses relating to investment properties that were unlet.

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

In HK$ million	The Group 2011	2012
Held in Hong Kong		
On medium-term lease (10–50 years)	12	**25**
Held outside Hong Kong		
On long-term lease (over 50 years)	913	**1,031**
On medium-term lease (10–50 years)	4,459	**4,748**
	5,384	**5,804**

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

As at December 31, 2012, the total future minimum lease receipts in respect of investment properties under non-cancellable operating leases are receivables as follows:

In HK$ million	The Group 2011	2012
Within 1 year	195	**201**
After 1 year but within 5 years	334	**319**
After 5 years	97	**69**
	626	**589**

Investment properties with a carrying value of approximately HK$5,777 million (2011: HK$5,370 million) were pledged as security for certain bank borrowings of the Group as at December 31, 2012. Please refer to note 41 for details of the Group's bank loan facilities.

18 INTERESTS IN LEASEHOLD LAND

In HK$ million	The Group 2011	2012
Cost		
Beginning of year	823	**823**
Additions upon business combinations	–	**4**
End of year	823	**827**
Accumulated amortization		
Beginning of year	271	**293**
Charge for the year	22	**22**
End of year	293	**315**
Net book value		
End of year	530	**512**
Beginning of year	552	**530**

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

In HK$ million	The Group 2011	2012
Held in Hong Kong		
On long-term lease (over 50 years)	84	**82**
On medium-term lease (10–50 years)	436	**417**
Held outside Hong Kong		
On medium-term lease (10–50 years)	10	**13**
	530	**512**

As at December 31, 2012, there was no leasehold land included in properties under development (2011: nil).

19 PROPERTIES HELD FOR/UNDER DEVELOPMENT/FOR SALE

In HK$ million	The Group 2011	2012
Properties under development	487	**468**
Properties held for development *(note a)*	618	**678**
	1,105	**1,146**
Less: Properties held for/under development classified as non-current assets	(1,105)	**(1,146)**
Properties held for/under development classified as current assets	–	**–**
Properties for sale classified as current assets *(note b)*	455	**214**
	455	**214**

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

b. Pursuant to the Cyberport Project Agreement, the Group was granted an exclusive right and obligation to design, develop, construct and market the Cyberport project at Telegraph Bay on the Hong Kong Island. The Cyberport project consists of commercial and residential portions. The completed commercial portion was transferred to the Government at no consideration. The associated costs incurred have formed part of the development costs of the residential portion. The construction of the residential portion of the Cyberport project was completed in November 2008.

20 GOODWILL

In HK$ million	The Group 2011	2012
Cost		
Beginning of year	3,336	**3,336**
Additions upon business combinations *(note 42)*	–	**196**
Exchange differences	–	**5**
End of year	3,336	**3,537**
Accumulated impairment		
Beginning and end of year	166	**166**
Carrying amount		
End of year	3,170	**3,371**
Beginning of year	3,170	**3,170**

20 GOODWILL *(CONTINUED)*

Impairment tests for CGUs containing goodwill

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

In HK$ million	The Group 2011	2012
HKT		
Mobile	1,939	**1,939**
PCCW Global	585	**714**
IP BPO Holdings Pte. Ltd. and its subsidiaries	204	**207**
	2,728	**2,860**
Media Business	162	**162**
Solutions Business	126	**193**
PCPD	91	**91**
Others		
UK Broadband Limited and its subsidiaries	59	**61**
Others	4	**4**
	63	**65**
Total	3,170	**3,371**

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

The key assumptions used for value-in-use calculations in 2011 and 2012 are as follows:

	2011 Gross margin	2011 Terminal growth rate	2011 Discount rate	**2012 Gross margin**	**2012 Terminal growth rate**	**2012 Discount rate**
Mobile	75%	2%	15%	**76%**	**2%**	**14%**
PCCW Global	22%	3%	11%	**15%**	**3%**	**10%**
IP BPO Holdings Pte. Ltd. and its subsidiaries	36%	2%	10%	**34%**	**2%**	**11%**
Media Business	51%	2%	15%	**45%**	**2%**	**15%**
Solutions Business	28%	2%	11%	**27%**	**2%**	**10%**

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

There was no indication of impairment arising from the review on goodwill as at October 31, 2012.

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

21 INTANGIBLE ASSETS

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

In HK$ million	The Group **2012**							
	Trademarks	**Content licence and capitalized programme costs**	**Wireless broadband licences**	**Carrier licences**	**Customer acquisition costs**	**Software**	**Others**	**Total**
Cost								
Beginning of year	**1,518**	**425**	**329**	**790**	**2,620**	**–**	**36**	**5,718**
Additions	**–**	**97**	**–**	**68**	**1,845**	**347**	**6**	**2,363**
Additions upon business combinations	**71**	**–**	**–**	**–**	**–**	**–**	**49**	**120**
Write-off	**–**	**(396)**	**–**	**–**	**(1,258)**	**–**	**(2)**	**(1,656)**
Exchange differences	**–**	**–**	**13**	**–**	**–**	**–**	**–**	**13**
End of year	**1,589**	**126**	**342**	**858**	**3,207**	**347**	**89**	**6,558**
Accumulated amortization and impairment								
Beginning of year	**863**	**391**	**158**	**165**	**1,317**	**–**	**12**	**2,906**
Charge for the year *(note a)*	**75**	**85**	**27**	**120**	**1,587**	**23**	**–**	**1,917**
Write-off	**–**	**(396)**	**–**	**–**	**(1,258)**	**–**	**(1)**	**(1,655)**
Exchange differences	**–**	**–**	**5**	**–**	**–**	**–**	**–**	**5**
End of year	**938**	**80**	**190**	**285**	**1,646**	**23**	**11**	**3,173**
Net book value								
End of year	**651**	**46**	**152**	**573**	**1,561**	**324**	**78**	**3,385**
Beginning of year	**655**	**34**	**171**	**625**	**1,303**	**–**	**24**	**2,812**

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

22 INVESTMENTS IN SUBSIDIARIES

In HK$ million	The Company 2011	2012
Unlisted shares, at cost	130,780	**130,780**
Capital contribution in respect of employee share-based compensation	283	**283**
	131,063	**131,063**
Less: Provision for impairment in value	(118,974)	**(118,974)**
	12,089	**12,089**

The provision for impairment in value of approximately HK$118,974 million (2011: HK$118,974 million) relates to certain subsidiaries of the Company.

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

As at December 31, 2012, particulars of the principal subsidiaries of the Company are as follows:

Company name	Place of incorporation/ operations	Principal activities	Nominal value of issued capital/ registered capital	Interest held by the Company Directly	Indirectly
HKT Limited	Cayman Islands/ Hong Kong	Investment holding	HK$3,208,365.396 ordinary shares and HK$3,208,365.396 preference shares	–	63.1%
HKT Group Holdings Limited ("HKTGH")	Cayman Islands	Investment holding	US$636,000,003	–	63.1%
Hong Kong Telecommunications (HKT) Limited ("HKTL")	Hong Kong	Provision of telecommunications services	HK$2,488,200,001	–	63.1%
HKT Services Limited	Hong Kong	Provision of management services to group companies	HK$1	–	63.1%
Esencia Investments Limited	British Virgin Islands	Investment holding	US$1	–	100%
Great Epoch Holdings Limited	British Virgin Islands	Investment holding	US$1	–	100%
PCCW-HKT Technical Services Limited	Hong Kong	Provision of technical support services, electronics and communications engineering, products and solutions	HK$700,002	–	100%
PCCW Mobile HK Limited	Hong Kong	Provision of mobile services to its customers, which is procured from HKTL and the sale of mobile phones and accessories	HK$100 ordinary shares and HK$1,254,000,000 non-voting deferred shares	–	63.1%
PCCW Media Limited	Hong Kong	Provision of pay television programme services, interactive multimedia services, the sale of advertising in various telephone directories, the publishing of those directories in Hong Kong and the sale of advertising on the Internet	HK$3,500,000,097 ordinary shares, HK$1 "A" Class share and HK$4 "B" Class shares	–	100%

22 INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

Company name	Place of incorporation/ operations	Principal activities	Nominal value of issued capital/ registered capital	Interest held by the Company Directly	Indirectly
PC Music Holdings Limited	British Virgin Islands	Investment holding	US$11	–	100%
PCCW Productions Limited	Hong Kong	Production of content for different media	HK$2	–	100%
PCCW Teleservices (Hong Kong) Limited	Hong Kong	Provision of customer relationship management and customer contact management solutions and services	HK$12	–	63.1%
PCCW Teleservices Operations (Hong Kong) Limited	Hong Kong	Provision of customer relationship management and customer contact management solutions and services	HK$2	–	63.1%
廣州電盈綜合客戶服務技術發展有限公司[2] (PCCW Customer Management Technology and Services (Guangzhou) Limited*)	The PRC	Customer service and consultancy	HK$53,803,000[4]	–	63.1%
PCCW (Macau), Limitada[3]	Macau	Selling customer premises equipment and related solutions, conducting systems integration projects and providing outsourced call center services	MOP2,000,000	–	47.3%
PCCW Teleservices (US), Inc.	Nebraska, U.S.	Telemarketing and direct marketing services	US$1,169	–	63.1%
PCCW Global B.V.	Netherlands/ France	Investment holding and provision of telecommunications and related services	EUR18,000	–	63.1%
PCCW Global (HK) Limited	Hong Kong	Provision of satellite-based and network-based telecommunications services	HK$10	–	63.1%
PCCW Global Limited	Hong Kong/Dubai Technology and Media Free Zone	Provision of network-based telecommunications services	HK$3	–	63.1%
PCCW Global, Inc.	Delaware, U.S.	Supply of broadband internet access solutions and web services	US$18.01	–	63.1%
PCCW Global (Singapore) Pte. Ltd. (in member's voluntary liquidation)	Singapore	Telecommunication solutions related services	S$172,124,441.71	–	63.1%
HKT Global (Singapore) Pte. Ltd.	Singapore	Provision of telecommunications solutions related services	S$60,956,485.64	–	63.1%
Gateway Global Communications Limited (formerly known as PCCW Global (UK) Limited)	United Kingdom	Provision of network-based telecommunications services to customers, and the provision of sales and marketing services to related companies	GBP1	–	63.1%
電訊盈科（北京）有限公司[2] (PCCW (Beijing) Limited*)	The PRC	Systems integration, consulting and informatization project	US$10,250,000	–	100%
Unihub China Information Technology Company Limited[1, 3]	The PRC	Selling of hardware and software and information system consulting services	RMB200,000,000	–	24.1%
PCCW Solutions Limited	Hong Kong	Provision of computer services and IP/IT related value-added services to business customers	HK$1,201	–	100%
電訊盈科信息技術（廣州）有限公司[2] (PCCW Solutions (Guangzhou) Limited*)	The PRC	Systems integration and technology consultancy	HK$12,600,000	–	100%
PCCW Business eSolutions Limited	Hong Kong	Provision of IP/IT related value-added services to business customers	HK$2	–	100%
PCCW Powerbase Data Center Services (HK) Limited	Hong Kong	Provision of data center services	HK$2	–	100%
Power Logistics Limited	Hong Kong	Logistics, printing, business process and ICT solutions	HK$100,000	–	100%

22 INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

Company name	Place of incorporation/ operations	Principal activities	Nominal value of issued capital/ registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly
Pacific Century Premium Developments Limited	Bermuda/Hong Kong	Investment holding	HK$198,833,356.60	–	74.5%
Cyber-Port Limited	Hong Kong	Property development	HK$2	–	74.5%
北京京威房地產開發有限公司[2] (Beijing Jing Wei House and Land Estate Development Co., Ltd.*)	The PRC	Property development	US$100,000,000	–	74.5%
Talent Master Investments Limited	British Virgin Islands/Hong Kong	Property development	US$1	–	74.5%
Nihon Harmony Resorts KK	Japan	Ski operation	JPY405,000,000	–	74.5%
UK Broadband Limited	United Kingdom	Public fixed wireless access licence businesses	GBP1	–	100%
UKB Solutions Limited	United Kingdom	Public fixed wireless access licence businesses	GBP100,000	–	100%

* Unofficial company name

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

Notes:
1 Represents a sino-foreign equity joint venture.
2 Represents a wholly foreign owned enterprise.
3 These companies are consolidated by the Group as the Group owns more than one half of the shareholders' voting rights and/or more than one half of the voting rights in the board of directors of these companies.
4 The change of registered capital from HK$53,803,000 to HK$93,240,000 has been approved by the PRC authority in February 2013.

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

a. Amounts due from subsidiaries

In HK$ million	The Company 2011	**2012**
Amounts due from subsidiaries	59,263	**59,595**
Less: Provision for impairment	(41,840)	**(41,839)**
	17,423	**17,756**

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

As at December 31, 2012, the Group financed the operations of certain of its PRC entities accounted for as subsidiaries amounting to approximately US$112 million (2011: US$110 million) which were not registered with the State Administration of Foreign Exchange. As a result, remittances in foreign currency of these amounts outside the PRC might be restricted. The balances were unsecured, non-interest bearing and had no fixed terms of repayment.

b. Amount due to a subsidiary

On April 17, 2012, PCCW entered into an unsecured term loan facility with PCCW Capital No. 4 Limited up to an aggregate amount of US$300 million repayable in 10 years at a fixed rate of 5.75% per annum. As at December 31, 2012, US$300 million of such facility was utilized.

23 INTERESTS IN ASSOCIATES

In HK$ million	The Group 2011	2012
Share of net assets of associates	389	**450**
Loans due from associates	149	**278**
Amount due from an associate	35	**34**
	573	**762**
Provision for impairment	(171)	**(171)**
	402	**591**
Investments at cost, unlisted	635	**664**

Other than two unsecured loans with fixed terms of repayment of approximately HK$31 million (2011: HK$43 million) repayable in 1 to 2 years bearing interest at a fixed rate of 5.0% (2011: 5.0%) per annum and approximately HK$43 million (2011: HK$28 million) repayable in 1 year bearing interest at a fixed rate of 5.0% (2011: 6.5%) per annum, certain secured loans with fixed terms of repayment of approximately HK$12 million (2011: nil) repayable in 1 year bearing interest at a fixed rate of 6.5% per annum and approximately HK$124 million (2011: nil) repayable in 1 year bearing interest at a fixed rate of 6.0% per annum, balances with associates are non-interest bearing and have no fixed terms of repayment. All of the balances due from associates are unsecured.

As at December 31, 2012, particulars of the principal associates of the Group are as follows:

Company name	Place of incorporation	Principal activities	Nominal value of issued capital/ registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly
Abacus Distribution Systems (Hong Kong) Limited	Hong Kong	Provision of computer reservation systems and travel related services	HK$15,600,000	–	37.04%
石化盈科信息技術有限責任公司 (Petro-CyberWorks Information Technology Company Limited*)	The PRC	Design and development of Enterprise Resource Planning systems, and customer relationship management systems	RMB50,000,000	–	45%
東莞捷通達電訊有限公司 (Dongguan Jietongda Telecommunications Company Limited*)	The PRC	Provision of support service for mobile service subscription, sales of mobile phones and accessories	RMB40,000,000	–	22.1%

* Unofficial company name

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

In HK$ million	2011	2012
Total assets	2,057	**2,346**
Total liabilities	(1,342)	**(1,562)**
Turnover	1,906	**2,850**
Profit after income tax	95	**50**

During the year ended December 31, 2012, the Group did not have any unrecognized share of losses of associates (2011: nil). As at December 31, 2012, the accumulated share of losses of the associates unrecognized by the Group was nil (2011: nil).

24 INTERESTS IN JOINTLY CONTROLLED COMPANIES

In HK$ million	The Group 2011	**2012**
Share of net assets of jointly controlled companies	3,068	**3,021**
Loans due from jointly controlled companies	309	**380**
Amounts due from jointly controlled companies	23	**23**
	3,400	**3,424**
Provision for impairment	(2,885)	**(2,885)**
	515	**539**
Investments at cost, unlisted shares	3,653	**3,657**

Balances with jointly controlled companies are unsecured and non-interest bearing, and have no fixed terms of repayment except that the loan due from a jointly controlled company of HK$372 million (2011: HK$301 million) bears interests at HIBOR plus 3% (2011: HIBOR plus 3%) per annum.

As at December 31, 2012, particulars of the principal jointly controlled companies of the Group are as follows:

Company name	Place of incorporation	Principal activities	Nominal value of issued capital/ registered capital	Interest held by the Company Directly	Indirectly
Reach Ltd.	Bermuda	Provision of international telecommunication services	US$5,890,000,000	–	31.5%
China Netcom Broadband Corporation Limited	The PRC	Internet access services business, information services business and resale of broadband resources, etc.	RMB644,518,697	–	31.5%
Genius Brand Limited	Hong Kong	Provision of mobile telecommunications services in Hong Kong	HK$10,000	–	31.5%

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

In HK$ million	2011	**2012**
Non-current assets	1,101	**1,100**
Current assets	402	**304**
Total assets	1,503	**1,404**
Non-current liabilities	(1,032)	**(1,189)**
Current liabilities	(748)	**(567)**
Net liabilities	(277)	**(352)**
Non-controlling interests	(147)	**(134)**
Equity attributable to equity holders of the company	(424)	**(486)**
Turnover	1,002	**662**
Expenses	(661)	**(657)**
Profit before income tax	341	**5**
Income tax	(6)	**(6)**
Profit after income tax	335	**(1)**
Non-controlling interests	(14)	**(12)**
Profit for the year attributable to equity holders of the company	321	**(13)**

25 AVAILABLE-FOR-SALE FINANCIAL ASSETS

In HK$ million	The Group 2011	2012
Beginning of year	281	**575**
Additions	229	**129**
Return of investment	–	**(7)**
Disposals	(31)	**–**
Net gains/(losses) transferred to equity	96	**(12)**
End of year	575	**685**

In HK$ million	The Group 2011	2012
Listed equity securities – overseas	78	**98**
Unlisted equity securities	497	**587**
	575	**685**
Market value of listed equity securities	78	**98**

As at December 31, 2012, the Group's equity securities were individually reviewed for impairment by management. Consequently, there was no provision for impairment (2011: nil) recognized in the consolidated income statement for the year ended December 31, 2012. The Group does not hold any collateral over these balances.

There was no disposal of available-for-sale financial assets during the year ended December 31, 2012.

During the year ended December 31, 2011, available-for-sale financial assets with a carrying value of approximately HK$31 million were sold at their carrying value and there was no transfer from equity on disposal and no realized gain was recognized.

No available-for-sale financial assets were pledged as security for bank borrowings of the Group as at December 31, 2012 (2011: nil).

26 CURRENT ASSETS AND LIABILITIES

a. Sales proceeds held in stakeholders' accounts

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

b. Restricted cash

The balance of the Group represented a restricted cash balance of approximately HK$1,319 million as at December 31, 2012 (2011: HK$696 million) held in specific bank accounts. The uses of the fund are specified in the Cyberport Project Agreement.

26 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

c. Prepayments, deposits and other current assets

Included in prepayments, deposits and other current assets of the Group were prepaid programme costs of approximately HK$280 million as at December 31, 2012 (2011: HK$319 million).

d. Inventories

In HK$ million	The Group	
	2011	**2012**
Work-in-progress	594	**547**
Finished goods	429	**405**
Consumable inventories	143	**132**
	1,166	**1,084**

e. Trade receivables, net

In HK$ million	The Group	
	2011	**2012**
Trade receivables *(note i)*	3,256	**4,282**
Less: Impairment loss for doubtful debts *(note ii)*	(172)	**(241)**
Trade receivables, net	3,084	**4,041**

i. Aging of trade receivables

In HK$ million	The Group	
	2011	**2012**
0 – 30 days	1,678	**2,028**
31 – 60 days	497	**600**
61 – 90 days	212	**332**
91 – 120 days	132	**162**
Over 120 days	737	**1,160**
	3,256	**4,282**

26 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

e. Trade receivables, net *(continued)*

ii. Impairment loss for doubtful debts

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

In HK$ million	The Group	
	2011	**2012**
Beginning of year	206	**172**
Impairment loss recognized	169	**186**
Uncollectible amounts written off	(203)	**(117)**
End of year	172	**241**

As at December 31, 2012, the Group's trade receivables of HK$120 million (2011: HK$115 million) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific provision for doubtful debts of HK$120 million (2011: HK$115 million) was recognized. The Group does not hold any collateral over these balances.

iii. Trade receivables that are not impaired

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

In HK$ million	The Group	
	2011	**2012**
Neither past due nor impaired	1,609	**1,624**
0 – 30 days past due	466	**810**
31 – 60 days past due	238	**311**
61 – 90 days past due	127	**252**
Over 90 days past due	644	**1,044**
Past due but not impaired	1,475	**2,417**
	3,084	**4,041**

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

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

Included in trade receivables, net of the Group was the amount due from a substantial shareholder of HK$41 million (2011: HK$89 million).

There was no trade receivables (2011: HK$37 million) pledged as security for certain bank borrowings of the Group as at December 31, 2012. Please refer to note 41 for details of the Group's bank loan facilities.

26 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

f. Short-term borrowings

In HK$ million	The Group 2011	2012
US$500 million 6% guaranteed notes due 2013 *(note i)*	–	**3,873**
Bank borrowings *(note ii)*	40	**4,667**
	40	**8,540**
Secured	40	**–**
Unsecured	–	**8,540**

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

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

ii. Bank borrowings

The bank borrowings as at December 31, 2012 were mainly represented certain loans maturing in 2013 which were classified as long-term borrowings (note 27) as at December 31, 2011.

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

g. Trade payables

The aging of trade payables is set out below:

In HK$ million	The Group 2011	2012
0 – 30 days	791	**837**
31 – 60 days	111	**311**
61 – 90 days	55	**85**
91 – 120 days	38	**137**
Over 120 days	782	**1,010**
	1,777	**2,380**

Included in trade payables of the Group was the amount due to a substantial shareholder of HK$63 million (2011: HK$19 million).

27 LONG-TERM BORROWINGS

In HK$ million	The Group 2011	**2012**
Repayable within a period		
– over one year, but not exceeding two years	8,123	**2,292**
– over two years, but not exceeding five years	15,347	**13,352**
– over five years	–	**2,282**
	23,470	**17,926**
Representing:		
US$500 million 6% guaranteed notes due 2013 *(note a)*	3,881	**–**
US$500 million 5.25% guaranteed notes due 2015 *(note b)*	3,867	**3,861**
US$500 million 4.25% guaranteed notes due 2016 *(note c)*	3,979	**4,016**
US$300 million 5.75% guaranteed notes due 2022 *(note d)*	–	**2,282**
Bank borrowings	11,743	**7,767**
	23,470	**17,926**
Secured	2	**–**
Unsecured	23,468	**17,926**

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

The notes were classified as short-term borrowings as at December 31, 2012. Please refer to note 26(f)(i) for more details.

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

On July 20, 2005, PCCW-HKT Capital No.3 Limited, an indirect non-wholly owned subsidiary of the Company, issued US$500 million 5.25% guaranteed notes due 2015, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKTC, HKTGH and HKTL and will rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC, HKTGH and HKTL.

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

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

d. US$300 million 5.75% guaranteed notes due 2022

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.

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

28 AMOUNT PAYABLE TO THE GOVERNMENT UNDER THE CYBERPORT PROJECT AGREEMENT

In HK$ million	The Group		
	2012		
	Government share under the Cyberport Project Agreement	**Others**	**Total**
Beginning of year	**569**	**34**	**603**
Addition to amount payable	**385**	**1**	**386**
Settlement during the year	**–**	**(30)**	**(30)**
End of year, classified as current liabilities	**954**	**5**	**959**

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

29 DERIVATIVE FINANCIAL INSTRUMENTS

In HK$ million	The Group		The Company	
	2011	**2012**	2011	**2012**
Non-current assets				
Fixed-to-fixed cross currency swap contracts				
– cash flow hedges *(note a)*	114	**65**	–	**–**
Fixed-to-floating cross currency swap contracts				
– cash flow hedges *(note b)*	31	**22**	–	**–**
Fixed-to-floating cross currency swap contracts				
– fair value hedges *(note b)*	130	**166**	–	**–**
	275	**253**	–	**–**
Current assets				
Fixed-to-fixed cross currency swap contracts				
– cash flow hedges *(note a)*	–	**4**	–	**–**
Non-current liabilities				
Fixed-to-floating cross currency swap contracts				
– cash flow hedges *(note b)*	–	**(56)**	–	**(56)**

As at December 31, 2012, the Group had outstanding cross currency swap contracts with notional contract amounts of US$1,800 million (approximately HK$13,952 million) (2011: US$1,500 million (approximately HK$11,664 million)) at various rates, to manage the Group's exposure to foreign currency fluctuations and interest rate risk.

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

29 DERIVATIVE FINANCIAL INSTRUMENTS *(CONTINUED)*

a. All of the fixed-to-fixed cross currency swap contracts outstanding as at December 31, 2012 with notional contract amounts of US$1,000 million (approximately HK$7,751 million) (2011: US$1,000 million (approximately HK$7,776 million)) were designated as cash flow hedges of the foreign exchange rate risk in the Group's foreign currency denominated borrowings. Maturity of these swaps matches with the maturity of the underlying borrowings and has fixed the USD/HKD exchange rate at 7.7790 to 7.8014 (2011: 7.7790 to 7.8014) for the notional amounts (see note 38(c)(i)). Gains and losses recognized in the hedging reserve under equity on these cross currency swap contracts will be continuously released to the income statement until the repayment of the borrowings.

b. The Group has entered into fixed-to-floating cross currency swap contracts outstanding as at December 31, 2012 with notional contract amounts of US$800 million (approximately HK$6,201 million) (2011: US$500 million (approximately HK$3,888 million)). Maturity of these swaps matches with the maturity of the underlying fixed rate borrowings and has fixed the USD/HKD exchange rate at 7.7555 to 7.7711 (2011: 7.7708 to 7.7711) for the notional amounts (see note 38(c)(i)). The swaps also pre-determined the interest rates at HIBOR+2.24% to HIBOR+4.43% (2011: HIBOR+2.24%) (see note 38(c)(ii)).

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

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

Those swap contracts designated as fair value hedges will offset the impact of future changes in interest rates on the fair value of the underlying fixed-rate debt obligations. The swap contracts were reflected at fair value in the consolidated balance sheet and the related portion of fixed-rate debt being hedged was reflected at an amount equal to the sum of its carrying amount plus an adjustment representing the change in fair value of the debt obligations attributable to the interest rate risk being hedged. Changes in the fair value of the swap contracts and the corresponding changes in the adjusted carrying amount of the related portion of the fixed-rate debt being hedged, are recognized as adjustments in "Finance costs" in the consolidated income statement. The net effect recognized in the "Finance costs" represents the ineffective portion of the hedging relationship, amounted to approximately HK$4 million for the current year (2011: HK$4 million).

30 SHARE CAPITAL

	2011		**2012**	
	Number of shares	Nominal value HK$ million	**Number of shares**	**Nominal value HK$ million**
Authorized:				
Ordinary shares of HK$0.25 each				
Beginning and end of year	10,000,000,000	2,500	**10,000,000,000**	**2,500**
Issued and fully paid:				
Ordinary shares of HK$0.25 each				
Beginning and end of year	7,272,294,654	1,818	**7,272,294,654**	**1,818**

31 EMPLOYEE RETIREMENT BENEFITS

a. Defined benefit retirement schemes

The Group operates defined benefit retirement schemes ("DB Schemes") that provide monthly pension payment for employees retired on or before July 1, 2003. The DB Schemes are final salary defined benefit schemes. The scheme assets are administered by independent trustees and are maintained independently of the Group's finances.

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

The latest independent actuarial valuation of the DB Schemes, prepared in accordance with HKAS 19, was carried out on December 31, 2012 and was prepared by Ms Wing Lui of Towers Watson Hong Kong Limited, a fellow of the Society of Actuaries of the United States of America, using the projected unit credit method. The actuary was of the opinion that the fair value of the scheme assets was sufficient to cover 51% (2011: 58%) of the present value of the defined benefit obligations as at December 31, 2012.

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

In HK$ million	The Group 2011	**2012**
Present value of the defined benefit obligations *(note iii)*	324	**368**
Fair value of scheme assets *(note iv)*	(189)	**(186)**
	135	**182**
Unrecognized actuarial losses	(132)	**(179)**
Defined benefit liability in the consolidated balance sheet	3	**3**

No employer's contributions are expected to be paid to the scheme in 2013.

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

	The Group 2011	**2012**
Equities	–	**50%**
Bonds	–	**42%**
Cash and alternatives	–	**8%**
Other (insurance fund)	100%	**–**
	100%	**100%**

As at December 31, 2012, the scheme assets do not include any ordinary shares issued by the Company (2011: Nil).

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

In HK$ million	The Group 2011	**2012**
Beginning of year	261	**324**
Benefits paid	(12)	**(14)**
Interest cost	8	**5**
Actuarial losses	67	**53**
End of year	324	**368**

31 EMPLOYEE RETIREMENT BENEFITS *(CONTINUED)*

a. Defined benefit retirement schemes *(continued)*

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

In HK$ million	The Group 2011	2012
Beginning of year	195	**189**
Benefits paid	(12)	**(14)**
Expected return on scheme assets	11	**11**
Actuarial losses	(5)	**–**
End of year	189	**186**

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

In HK$ million	The Group 2011	2012
Interest cost	8	**5**
Expected return on scheme assets	(11)	**(11)**
Net actuarial losses recognized during the year	2	**6**
	(1)	**–**
Total included in General and administrative expenses – retirement costs for other staff *(note 9(a))*	(1)	**–**
Actual return on scheme assets	6	**11**

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

	The Group 2011	2012
Discount rate	1.50%	**0.80%**
Expected rate of return on scheme assets	6.00%	**N/A***
Future pension increase	3.00%	**3.00%**

The expected rate of return on scheme assets was based on the long-term benchmark allocation of the scheme as at December 31, 2011.

* With the adoption of HKAS 19 (2011) effective from January 1, 2013, the long-term average expected return on scheme assets is no longer applicable for determining the expense for the year ending December 31, 2013.

vii. Historical information:

In HK$ million	2008	2009	The Group 2010	2011	2012
Present value of the defined benefit obligations	352	286	261	324	**368**
Fair value of scheme assets	(204)	(201)	(195)	(189)	**(186)**
Deficit in the scheme	148	85	66	135	**182**
Experience (gains)/losses on scheme liabilities	(1)	8	(2)	5	**4**
Experience losses on scheme assets	2	2	5	5	**–**

(Amount expressed in Hong Kong dollars unless otherwise stated)

31 EMPLOYEE RETIREMENT BENEFITS *(CONTINUED)*

b. Defined contribution retirement schemes

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

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

Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000, which was revised upward to HK$25,000 with effect from June 1, 2012. Contributions to the scheme vest immediately upon the completion of the service in the relevant service period.

32 EQUITY COMPENSATION BENEFITS

a. Share option schemes of the Company

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

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

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

	2011		**2012**	
	Weighted average exercise price HK$	Number of options	**Weighted average exercise price HK$**	**Number of options**
Beginning of year	6.57	67,709,617	**4.58**	**47,094,238**
Cancelled/Lapsed *(note iii)*	11.11	(20,615,379)	**5.88**	**(7,128,700)**
End of year *(note ii)*	4.58	47,094,238	**4.35**	**39,965,538**
Exercisable at end of year	4.58	47,094,238	**4.35**	**39,965,538**

32 EQUITY COMPENSATION BENEFITS *(CONTINUED)*

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

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

Date of grant	Vesting period	Exercise period	Exercise price HK$	Number of options 2011	**2012**
April 11, 2002	April 11, 2003 to April 11, 2007	April 11, 2003 to April 11, 2012	7.9150	86,700	–
August 1, 2002	August 1, 2003 to August 1, 2005	August 1, 2003 to July 31, 2012	8.0600	200,000	–
November 13, 2002	November 13, 2003 to November 13, 2005	November 13, 2003 to November 12, 2012	6.1500	5,480,000	–
July 25, 2003	July 25, 2004 to July 25, 2006	July 25, 2004 to July 23, 2013	4.3500	41,320,538	**39,965,538**
September 16, 2003	September 16, 2004 to September 16, 2006	September 16, 2004 to September 14, 2013	4.9000	7,000	–
				47,094,238	**39,965,538**

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

Range of exercise prices	2011 Weighted average remaining contractual life (years)	2011 Number of options	**2012 Weighted average remaining contractual life (years)**	**2012 Number of options**
HK$4.01 to 5.04	1.56	41,327,538	**0.56**	**39,965,538**
5.05 to 7.54	0.87	5,480,000	**N/A**	–
7.55 to 11.29	0.49	286,700	**N/A**	–
		47,094,238		**39,965,538**

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

Exercise period	Exercise price HK$	Number of options 2011	**2012**
January 22, 2001 to January 22, 2011	16.8400	10,491,559	–
May 26, 2001 to April 17, 2011	10.3000	1,039,000	–
February 8, 2002 to February 8, 2011	18.7600	86,700	–
July 16, 2002 to July 16, 2011	9.1600	169,120	–
April 11, 2003 to April 11, 2012	7.9150	–	**86,700**
August 1, 2003 to July 31, 2012	8.0600	–	**200,000**
November 13, 2003 to November 12, 2012	6.1500	–	**5,480,000**
July 25, 2004 to July 23, 2013	4.3500	8,829,000	**1,355,000**
September 16, 2004 to September 14, 2013	4.9000	–	**7,000**
		20,615,379	**7,128,700**

(Amount expressed in Hong Kong dollars unless otherwise stated)

32 EQUITY COMPENSATION BENEFITS *(CONTINUED)*

b. Share award schemes of the Company

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

Pursuant to the relevant scheme rules of the Purchase Scheme and the Subscription Scheme, both schemes expired on November 15, 2012. The expiry of the scheme rules would not affect the shares which were previously awarded prior to the expiry date. Each of the participating subsidiaries of the Company is in the process of adopting a new set of scheme rules in respect of the Purchase Scheme and the Subscription Scheme so as to continue to participate in both schemes for a further 10 years and to accommodate the grant of Share Stapled Units in addition or as alternative to the shares of the Company, in the future.

No awards have been made or agreed to be made, under the Subscription Scheme for the year ended December 31, 2012.

A summary of movements in PCCW Shares held under the Purchase Scheme during the year is as follows:

	Number of PCCW Shares 2011	**2012**
Beginning of year	2,519,109	**2,519,109**
Purchase from market by the trustee at average market price of HK$2.95 per PCCW Share	–	**9,194,000**
End of year	2,519,109	**11,713,109**

Details of PCCW Shares awarded pursuant to the Purchase Scheme during the year and the PCCW Shares unvested, are as follows:

i. Movements in the number of unvested PCCW Shares and their related weighted average fair value on the date of award

	2011		**2012**	
	Weighted average fair value on the date of award HK$	Number of PCCW Shares	**Weighted average fair value on the date of award HK$**	**Number of PCCW Shares**
Beginning of year	N/A	–	**N/A**	**–**
Awarded *(note iii)*	N/A	–	**2.89**	**11,659,940**
Forfeited *(note iv)*	N/A	–	**2.80**	**(14,822)**
End of year *(note ii)*	N/A	–	**2.89**	**11,645,118**

32 EQUITY COMPENSATION BENEFITS *(CONTINUED)*

b. Share award schemes of the Company *(continued)*

ii. Terms of unvested PCCW Shares at balance sheet date

Date of award	Vesting period	Fair value on the date of award HK$	Number of PCCW Shares 2011	Number of PCCW Shares 2012
March 5, 2012	March 5, 2012 to 8 July, 2013	2.93	–	**1,384,000**
March 5, 2012	March 5, 2012 to 8 July, 2014	2.93	–	**2,077,000**
March 5, 2012	March 5, 2012 to 8 July, 2015	2.93	–	**3,461,000**
April 11, 2012	April 11, 2012 to April 11, 2013	2.80	–	**1,829,796**
April 11, 2012	April 11, 2012 to April 11, 2014	2.80	–	**2,053,593**
June 15, 2012	June 15, 2012 to June 15, 2013	2.97	–	**419,865**
June 15, 2012	June 15, 2012 to June 15, 2014	2.97	–	**419,864**
			–	**11,645,118**

The PCCW Shares unvested at December 31, 2012 had a weighted average remaining vesting period of 1.42 years (2011: Nil).

iii. Details of PCCW Shares awarded during the year

Date of award	Vesting period	Fair value on the date of award HK$	Number of PCCW Shares 2011	Number of PCCW Shares 2012
March 5, 2012	March 5, 2012 to 8 July, 2013	2.93	–	**1,384,000**
March 5, 2012	March 5, 2012 to 8 July, 2014	2.93	–	**2,077,000**
March 5, 2012	March 5, 2012 to 8 July, 2015	2.93	–	**3,461,000**
April 11, 2012	April 11, 2012 to April 11, 2013	2.80	–	**1,837,208**
April 11, 2012	April 11, 2012 to April 11, 2014	2.80	–	**2,061,003**
June 15, 2012	June 15, 2012 to June 15, 2013	2.97	–	**419,865**
June 15, 2012	June 15, 2012 to June 15, 2014	2.97	–	**419,864**
			–	**11,659,940**

iv. Details of PCCW Shares forfeited during the year

Date of award	Vesting period	Fair value on the date of award HK$	Number of PCCW Shares 2011	Number of PCCW Shares 2012
April 11, 2012	April 11, 2012 to April 11, 2013	2.80	–	**7,412**
April 11, 2012	April 11, 2012 to April 11, 2014	2.80	–	**7,410**
			–	**14,822**

The fair value of the PCCW Shares awarded during the year at date of award is measured by the quoted market price of the PCCW Shares at the respective award dates.

During the year, share-based compensation expenses in respect of the PCCW Shares of HK$13 million are recognized in the consolidated income statement and HK$13 million are recognized in the employee share-based compensation reserve.

(Amount expressed in Hong Kong dollars unless otherwise stated)

32 EQUITY COMPENSATION BENEFITS *(CONTINUED)*

c. Share option schemes of PCPD

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

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

No share options have been granted under the 2005 PCPD Scheme during the years ended December 31, 2011 and 2012 and no share options were outstanding at December 31, 2012 under such scheme.

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

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

	2011		**2012**	
	Weighted average exercise price HK$	Number of options	**Weighted average exercise price HK$**	**Number of options**
Beginning and end of year *(note ii)*	2.375	5,000,000	**2.375**	**5,000,000**
Exercisable at end of year	2.375	5,000,000	**2.375**	**5,000,000**

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

Date of grant	Vesting period	Exercise period	Exercise price HK$	Number of options 2011	**2012**
December 20, 2004	December 20, 2004	December 20, 2004 to December 19, 2014	2.375	5,000,000	**5,000,000**
				5,000,000	**5,000,000**

The options outstanding at December 31, 2012 had a weighted average remaining contractual life of 2 years (2011: 3 years).

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

32 EQUITY COMPENSATION BENEFITS *(CONTINUED)*

d. Equity compensation benefit of HKT Trust and HKT

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

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

No Share Stapled Units option has been granted under the HKT 2011-2021 Option Scheme since the Adoption Date. Accordingly, there were no outstanding options under the HKT 2011-2021 Option Scheme as at December 31, 2012 and no options were granted to or exercised by any directors of HKT and the trustee-manager or the chief executive of HKT or employees of the HKT Group or other participants nor cancelled or lapsed during the year ended December 31, 2012.

ii. Share Stapled Units award schemes of HKT

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

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

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

(i) any full-time or part-time employees of HKT and/or any of its subsidiaries;

(ii) any director (including executive, non-executive and independent non-executive director) of HKT and/or any of its subsidiaries.

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

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

The eligible participants are awarded Share Stapled Units purchased in the market under HKT Share Stapled Units Purchase Scheme and newly issued Share Stapled Units under the HKT Share Stapled Units Subscription Scheme respectively.

The HKT Share Stapled Units Award Schemes are administered by the board of directors of HKT ("HKT Board") and an independent trustee (the "Trustee"), as trustee appointed to hold the relevant Share Stapled Units until such time as the Share Stapled Units vest in the selected participants. Under both schemes, following the making of an award to an eligible participant, the relevant Share Stapled Units are held by the Trustee for that eligible participant and then vest over a period of time provided that the eligible participant remains an employee of the HKT Group at the relevant time and satisfies any other conditions specified at the time the award is made, notwithstanding that the relevant committee of the HKT Board shall be at liberty to waive such condition.

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

(Amount expressed in Hong Kong dollars unless otherwise stated)

32 EQUITY COMPENSATION BENEFITS *(CONTINUED)*

d. Equity compensation benefit of HKT Trust and HKT *(continued)*

ii. Share Stapled Units award schemes of HKT *(continued)*

No awards have been made or agreed to be made, under the HKT Share Stapled Units Subscription Scheme for the year ended December 31, 2012.

A summary of movements in Share Stapled Units held under HKT Share Stapled Units Purchase Scheme during the year is as follows:

	Number of Share Stapled Units 2011	**2012**
Beginning of year	–	**–**
Purchase from market by the trustee at average market price of HK$6.07 per Share Stapled Unit	–	**1,158,000**
End of year	–	**1,158,000**

Details of Share Stapled Units awarded pursuant to the HKT Share Stapled Units Purchase Scheme during the year and the Share Stapled Units unvested, are as follows:

(i) Movements in the number of unvested Share Stapled Units and their related weighted average fair value on date of award

	2011		**2012**	
	Weighted average fair value on the date of award HK$	Number of Share Stapled Units	**Weighted average fair value on the date of award HK$**	**Number of Share Stapled Units**
Beginning of year	N/A	–	**N/A**	**–**
Awarded *(note iii)*	N/A	–	**5.98**	**1,145,831**
Forfeited *(note iv)*	N/A	–	**5.98**	**(5,566)**
End of year *(note ii)*	N/A	–	**5.98**	**1,140,265**

(ii) Terms of unvested Share Stapled Units at balance sheet date

Date of award	Vesting period	Fair value on the date of award HK$	Number of Share Stapled Units 2011	**2012**
April 11, 2012	April 11, 2012 to April 11, 2013	5.98	–	**534,748**
April 11, 2012	April 11, 2012 to April 11, 2014	5.98	–	**605,517**
			–	**1,140,265**

The Share Stapled Units unvested at December 31, 2012 had a weighted average remaining vesting period of 0.81 years (2011: Nil).

32 EQUITY COMPENSATION BENEFITS *(CONTINUED)*

d. Equity compensation benefit of HKT Trust and HKT *(continued)*

ii. Share Stapled Units award schemes of HKT *(continued)*

(iii) Details of Share Stapled Units awarded during the year

Date of award	Vesting period	Fair value on the date of award HK$	Number of Share Stapled Units 2011	**2012**
April 11, 2012	April 11, 2012 to April 11, 2013	5.98	–	**537,532**
April 11, 2012	April 11, 2012 to April 11, 2014	5.98	–	**608,299**
			–	**1,145,831**

(iv) Details of Share Stapled Units forfeited during the year

Date of award	Vesting period	Fair value on the date of award HK$	Number of Share Stapled Units 2011	**2012**
April 11, 2012	April 11, 2012 to April 11, 2013	5.98	–	**2,784**
April 11, 2012	April 11, 2012 to April 11, 2014	5.98	–	**2,782**
			–	**5,566**

The fair value of the Share Stapled Units awarded during the year at the date of award is measured by the quoted market price of the Share Stapled Units at the respective award dates.

During the year, share-based compensation expenses in respect of the Share Stapled Units of HK$4 million are recognized in the consolidated income statement, HK$3 million are recognized in the employee share-based compensation reserve and HK$1 million are recognized in the non-controlling interests.

33 RESERVES

In HK$ million	2011										
	Share premium	Special capital reserve *(note (a))*	Capital redemption reserve	Treasury stock	Employee share-based compensation reserve	Currency translation reserve	Hedging reserve	Available-for-sale financial assets reserve	Other reserve	(Accumulated losses)/ Retained profits	Total
THE GROUP											
At January 1, 2011	9,143	11,130	3	(18)	96	909	196	83	(31)	(26,592)	(5,081)
Total comprehensive income for the year											
Profit for the year	–	–	–	–	–	–	–	–	–	1,607	1,607
Other comprehensive income											
Exchange differences on translating foreign operations	–	–	–	–	–	170	–	–	–	–	170
Available-for-sale financial assets:											
– changes in fair value	–	–	–	–	–	–	–	98	–	–	98
Cash flow hedges:											
– effective portion of changes in fair value	–	–	–	–	–	–	15	–	–	–	15
– transfer from equity to income statement	–	–	–	–	–	–	(57)	–	–	–	(57)
	–	–	–	–	–	170	(42)	98	–	1,607	1,833
Total contributions by and distributions to equity owners recognized in equity											
Dividend paid in respect of previous year	–	(742)	–	–	–	–	–	–	–	–	(742)
Dividend declared and paid in respect of the current year	–	(385)	–	–	–	–	–	–	–	–	(385)
Special dividend in specie	–	(1,443)	–	–	–	–	–	–	–	–	(1,443)
Dilution of interest in the HKT Group *(note (b))*	–	–	–	–	–	–	–	–	–	10,104	10,104
	–	(2,570)	–	–	–	–	–	–	–	10,104	7,534
At December 31, 2011	9,143	8,560	3	(18)	96	1,079	154	181	(31)	(14,881)	4,286
THE COMPANY											
At January 1, 2011	9,143	11,130	3	–	95	–	–	–	–	8,391	28,762
Total comprehensive income for the year											
Profit for the year	–	–	–	–	–	–	–	–	–	169	169
	–	–	–	–	–	–	–	–	–	169	169
Total contributions by and distributions to equity owners recognized in equity											
Dividend paid in respect of previous year	–	(742)	–	–	–	–	–	–	–	–	(742)
Dividend declared and paid in respect of the current year	–	(385)	–	–	–	–	–	–	–	–	(385)
Special dividend in specie	–	(1,443)	–	–	–	–	–	–	–	–	(1,443)
	–	(2,570)	–	–	–	–	–	–	–	–	(2,570)
At December 31, 2011	9,143	8,560	3	–	95	–	–	–	–	8,560	26,361

33 RESERVES *(CONTINUED)*

In HK$ million 2012	Share premium	Special capital reserve *(note (a))*	Capital redemption reserve	Treasury stock	Employee share-based compensation reserve	Currency translation reserve	Hedging reserve	Available-for-sale financial assets reserve	Other reserve	(Accumulated losses)/ Retained profits	Total
THE GROUP											
At January 1, 2012	9,143	8,560	3	(18)	96	1,079	154	181	(31)	(14,881)	4,286
Total comprehensive income for the year											
Profit for the year	–	–	–	–	–	–	–	–	–	1,663	1,663
Other comprehensive income											
Exchange differences on translating foreign operations	–	–	–	–	–	109	–	–	–	–	109
Available-for-sale financial assets:											
– changes in fair value	–	–	–	–	–	–	–	(15)	–	–	(15)
Cash flow hedges:											
– effective portion of changes in fair value	–	–	–	–	–	–	(87)	–	–	–	(87)
– transfer from equity to income statement	–	–	–	–	–	–	22	–	–	–	22
	–	–	–	–	–	109	(65)	(15)	–	1,663	1,692
Total contributions by and distributions to equity owners recognized in equity											
Purchase of PCCW Shares under share award schemes	–	–	–	(26)	–	–	–	–	–	–	(26)
Purchase of Share Stapled Units under Shares Stapled Units award schemes	–	–	–	–	–	–	–	–	–	(5)	(5)
Employee share-based compensation	–	–	–	–	16	–	–	–	–	–	16
Reclassification due to expiry of share options	–	–	–	–	(12)	–	–	–	–	12	–
Dividend paid in respect of previous year	–	(771)	–	–	–	–	–	–	–	–	(771)
Dividend declared and paid in respect of the current year	–	(401)	–	–	–	–	–	–	–	–	(401)
Gain arising from distributions in specie of Share Stapled Units *(note 14)*	–	–	–	–	–	–	–	–	–	1,625	1,625
Increase in interests in subsidiaries *(note 43)*	–	–	–	–	–	–	–	–	–	745	745
	–	(1,172)	–	(26)	4	–	–	–	–	2,377	1,183
At December 31, 2012	9,143	7,388	3	(44)	100	1,188	89	166	(31)	(10,841)	7,161
THE COMPANY											
At January 1, 2012	9,143	8,560	3	–	95	–	–	–	–	8,560	26,361
Total comprehensive income for the year											
Profit for the year	–	–	–	–	–	–	–	–	–	1,458	1,458
Other comprehensive income											
Cash flow hedges:											
– effective portion of changes in fair value	–	–	–	–	–	–	(53)	–	–	–	(53)
– transfer from equity to income statement	–	–	–	–	–	–	4	–	–	–	4
	–	–	–	–	–	–	(49)	–	–	1,458	1,409
Total contributions by and distributions to equity owners recognized in equity											
Reclassification due to expiry of share options	–	–	–	–	(12)	–	–	–	–	12	–
Dividend paid in respect of previous year	–	(771)	–	–	–	–	–	–	–	–	(771)
Dividend declared and paid in respect of the current year	–	(401)	–	–	–	–	–	–	–	–	(401)
	–	(1,172)	–	–	(12)	–	–	–	–	12	(1,172)
At December 31, 2012	9,143	7,388	3	–	83	–	(49)	–	–	10,030	26,598

33 RESERVES *(CONTINUED)*

a. The special capital reserve was created as a result of capital reduction in 2004 where the Company applied its entire share premium balance to eliminate accumulated losses as at June 30, 2004. The special capital reserve was not treated as realized profit and (for so long as the Company remains a listed company) was treated as an undistributable reserve for the purposes of section 79C of the Hong Kong Companies Ordinance.

On January 10, 2006, the High Court of Hong Kong (the "High Court") made an order which permitted the Company to distribute dividend out of the special capital reserve providing that the Company setting aside sums totalling approximately US$544 million (approximately HK$4,243 million) and HK$106 million for the sole purpose of discharging certain debts or liabilities of the Company existing at the date of the Capital Reduction, principally being the aggregate amount of principal, accrued interest and redemption premium payable on maturity of the US$450 million 1% guaranteed convertible bonds due 2007 issued by PCCW Capital No. 2 Limited. Those amounts were set aside, and the High Court order thereby became effective, on March 27, 2006. As at December 31, 2012, there was no cash (2011: HK$32 million) set aside and recorded under "Restricted cash" in the balance sheet of the Company. Accordingly, as at December 31, 2012, the Company had special capital reserve, which can be distributed as dividend in accordance with above, of HK$7,388 million (2011: HK$8,560 million). Inclusive of retained profits of HK$10,030 million (2011: HK$8,560 million), the Company has total distributable reserves of HK$17,418 million as at December 31, 2012 (2011: HK$17,120 million).

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

34 DEFERRED INCOME TAX

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

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

In HK$ million	The Group **2012**					
	Accelerated tax depreciation	**Valuation adjustment resulting from acquisition of subsidiaries**	**Revaluation of properties**	**Tax losses**	**Others**	**Total**
Beginning of year	**1,654**	**204**	**310**	**(74)**	**(20)**	**2,074**
Charged/(Credited) to consolidated income statement *(note 12(a))*	**87**	**(20)**	**63**	**(597)**	**3**	**(464)**
Additions through business combinations	**–**	**–**	**–**	**–**	**2**	**2**
Exchange differences	**4**	**–**	**3**	**–**	**(1)**	**6**
End of year	**1,745**	**184**	**376**	**(671)**	**(16)**	**1,618**

In HK$ million	The Group 2011	**2012**
Net deferred income tax assets recognized in the consolidated balance sheet	(148)	**(703)**
Net deferred income tax liabilities recognized in the consolidated balance sheet	2,222	**2,321**
	2,074	**1,618**

b. During the year, deferred income tax assets of HK$597 million (2011: HK$3 million) had been recognized for tax losses carry-forward to the extent that realization of the related tax benefit through utilization against future taxable profits is probable. The Group has unutilized estimated tax losses for which no deferred income tax assets have been recognized of HK$14,519 million (2011: HK$17,469 million) to carry forward for deduction against future taxable income. Estimated tax losses of HK$242 million (2011: HK$216 million) and HK$59 million (2011: nil) will expire within 1–5 years and after 5 years from December 31, 2012 respectively. The remaining portion of the tax losses, mainly relating to Hong Kong companies, can be carried forward indefinitely.

35 CARRIER LICENCE FEE LIABILITIES

As at December 31, 2012, the Group had carrier licence fee liabilities repayable as follows:

In HK$ million	The Group					
	2011			**2012**		
	Present value of the minimum annual fees	Interest expense relating to future periods	Total minimum annual fees	**Present value of the minimum annual fees**	**Interest expense relating to future periods**	**Total minimum annual fees**
Repayable within a period						
– not exceeding one year	187	12	199	**196**	**13**	**209**
– over one year, but not exceeding two years	145	26	171	**153**	**28**	**181**
– over two years, but not exceeding five years	411	162	573	**334**	**108**	**442**
– over five years	259	141	400	**232**	**118**	**350**
	1,002	341	1,343	**915**	**267**	**1,182**
Less: Amounts repayable within one year included under current liabilities	(187)	(12)	(199)	**(196)**	**(13)**	**(209)**
	815	329	1,144	**719**	**254**	**973**

36 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

In HK$ million	The Group 2011	2012
Profit before income tax	2,318	**2,799**
Adjustment for:		
Provision for inventory obsolescence	10	**7**
Interest income	(71)	**(62)**
Interest expense	1,315	**825**
Finance charges	245	**136**
Cash flow hedges: transferred from equity	1	**1**
Fair value gains on derivative financial instruments on fair value hedges	(198)	**(31)**
Fair value adjustment of borrowings attributable to interest rate risk	202	**35**
Depreciation of property, plant and equipment	2,549	**2,482**
Net gain from return of investment of available-for-sale financial assets	–	**(3)**
Net gains on cash flow hedging instruments transferred from equity	(39)	**(13)**
Fair value gains on investment properties	(25)	**(349)**
Impairment loss on an interest in a jointly controlled company	16	**–**
Assets and business received from the JV	(644)	**–**
(Gain)/loss on disposal of property, plant and equipment and intangible assets, net	(1)	**13**
Impairment loss for doubtful debts	169	**186**
Amortization of intangible assets	1,378	**1,917**
Amortization of land lease premium		
– interests in leasehold land	22	**22**
Share of results of associates and jointly controlled companies	(32)	**22**
Increase in treasury stock for the purchase of PCCW Shares under share award schemes	–	**(26)**
Decrease in equity for the purchase of Share Stapled Units under Share Stapled Units award schemes	–	**(5)**
Decrease in non-controlling interests for the purchase of Share Stapled Units under Share Stapled Units award schemes	–	**(2)**
Share-based compensation expenses	–	**17**
Decrease/(Increase) in operating assets		
– properties held for/under development/for sale	259	**170**
– inventories	(190)	**75**
– trade receivables	(724)	**(240)**
– prepayments, deposits and other current assets	(294)	**(1,144)**
– sales proceeds held in stakeholders' accounts	213	**(46)**
– restricted cash	1,546	**(616)**
– amounts due from related companies	2	**(75)**
– other non-current assets	(49)	**(32)**
Increase/(Decrease) in operating liabilities		
– trade payables, accruals and other payables and deferred income	182	**(211)**
– amount payable to the Government under the Cyberport Project Agreement	(1,003)	**356**
– amounts due to related companies	(39)	**109**
– other long-term liabilities	(6)	**(20)**
– advances from customers	(110)	**145**
CASH GENERATED FROM OPERATIONS	7,002	**6,442**
Interest received	77	**49**
Income tax paid, net of tax refund		
– Hong Kong profits tax paid	(241)	**(265)**
– overseas profits tax paid	(60)	**(58)**
NET CASH GENERATED FROM OPERATING ACTIVITIES	6,778	**6,168**

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

b. Additions upon business combinations

In HK$ million	The Group 2011	The Group 2012
Net assets acquired:		
Property, plant and equipment	–	**190**
Interests in leasehold land	–	**4**
Intangible assets	–	**120**
Trade receivables, prepayments, deposits and other current assets	–	**956**
Cash and cash equivalents	–	**56**
Short-term borrowings	–	**(78)**
Trade payables, accruals, other payables and advances from customers	–	**(1,039)**
Current income tax liabilities	–	**(6)**
Deferred tax liabilities	–	**(2)**
	–	**201**
Goodwill on acquisition	–	**196**
Settlement of obligation assumed upon business combinations	–	**(121)**
Purchase consideration	–	**276**
Satisfied by:		
Cash	–	**276**
Analysis of the net outflow of cash and cash equivalents in respect of additions upon business combinations:		
Purchase consideration settled in cash	–	**(276)**
Cash and cash equivalents of subsidiaries acquired	–	**56**
	–	**(220)**
Settlement of obligation assumed upon business combinations	–	**(121)**

c. Analysis of cash and cash equivalents

In HK$ million	The Group 2011	The Group 2012	The Company 2011	The Company 2012
Cash and bank balances	6,101	**5,872**	119	**888**
Bank overdrafts	(1)	**–**	–	**–**
Restricted cash	(735)	**(1,319)**	(32)	**–**
Cash and cash equivalents as at December 31,	5,365	**4,553**	87	**888**

37 CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders, and benefits for other stakeholders, to support the Group's stability and growth; and to earn a margin commensurate with the level of business and market risks in the Group's operation.

The Group monitors capital by reviewing the level of capital that is at the disposal of the Group ("Adjusted Capital"), taking into consideration the future capital requirements of the Group, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. Adjusted Capital comprises share capital, share premium, special capital reserve, capital redemption reserve, treasury stock, employee share-based compensation reserve, currency translation reserve, hedging reserve, available-for-sale financial assets reserve and other reserve.

The Adjusted Capital at December 31, 2011 and 2012 was as follows:

In HK$ million	The Group 2011	**2012**
Equity attributable to equity holders of the Company	6,104	**8,979**
Add back: Accumulated losses	14,881	**10,841**
Adjusted Capital	20,985	**19,820**

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements, except for the debt covenant requirement of the loan agreements with external parties and the minimum capital requirement of a subsidiary regulated by Bermuda Monetary Authority.

38 FINANCIAL INSTRUMENTS

The tables below analyse financial instruments by category:

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

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

The tables below analyse financial instruments by category: *(continued)*

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

In HK$ million	The Group **2012** **Held-to-maturity investments**	**Loans and receivables**	**Derivatives used for hedging**	**Available-for-sale financial assets**	**Total**
Non-current assets					
Held-to-maturity investments	**1**	**–**	**–**	**–**	**1**
Available-for-sale financial assets	**–**	**–**	**–**	**685**	**685**
Derivative financial instruments	**–**	**–**	**253**	**–**	**253**
Other non-current assets	**–**	**45**	**–**	**–**	**45**
	1	**45**	**253**	**685**	**984**
Current assets					
Sale proceeds held in stakeholders' accounts	**–**	**678**	**–**	**–**	**678**
Restricted cash	**–**	**1,319**	**–**	**–**	**1,319**
Prepayments, deposits and other current assets (excluding prepayments)	**–**	**3,732**	**–**	**–**	**3,732**
Amounts due from related companies	**–**	**93**	**–**	**–**	**93**
Derivative financial instruments	**–**	**–**	**4**	**–**	**4**
Trade receivables, net	**–**	**4,041**	**–**	**–**	**4,041**
Cash and cash equivalents	**–**	**4,553**	**–**	**–**	**4,553**
	–	**14,416**	**4**	**–**	**14,420**
Total	**1**	**14,461**	**257**	**685**	**15,404**

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

The tables below analyse financial instruments by category: *(continued)*

In HK$ million	The Group 2012 Derivatives used for hedging	The Group 2012 Other financial liabilities at amortized cost	The Group 2012 Total
Current liabilities			
Short-term borrowings	–	8,540	8,540
Trade payables	–	2,380	2,380
Accruals and other payables	–	4,129	4,129
Amount payable to the Government under the Cyberport Project Agreement	–	959	959
Carrier licence fee liabilities	–	196	196
Amounts due to related companies	–	136	136
	–	16,340	16,340
Non-current liabilities			
Long-term borrowings	–	17,926	17,926
Derivative financial instruments	56	–	56
Carrier licence fee liabilities	–	719	719
Other long-term liabilities	–	101	101
	56	18,746	18,802
Total	56	35,086	35,142

In HK$ million	The Company Loans and receivables 2011	The Company Loans and receivables 2012
Current assets		
Amounts due from subsidiaries	17,423	17,756
Restricted cash	32	–
Prepayments, deposits and other current assets (excluding prepayments)	9	31
Cash and cash equivalents	87	888
Total	17,551	18,675

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

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

The tables below analyse financial instruments by category: *(continued)*

In HK$ million	The Company 2012 Derivatives used for hedging	Other financial liabilities at amortized cost	Total
Current liabilities			
Accruals and other payables	–	11	11
Non-current liabilities			
Amount due to a subsidiary	–	2,282	2,282
Derivative financial instruments	56	–	56
	56	2,282	2,338
Total	56	2,293	2,349

Exposures to credit, liquidity, and market (including foreign currency, interest rate) risks arise in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities. Exposures to these risks are controlled by the Group's financial management policies and practices described below.

a. Credit risk

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

Trade receivables in respect of properties sold are payable by the purchasers pursuant to the terms of the sales contracts. Other trade receivables have a normal credit period ranging up to 30 days from the date of invoice unless there is a separate mutual agreement on extension of the credit period. The Group maintains a well-defined credit policy and individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors who have overdue payable are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers. As at December 31, 2011 and 2012, the Group did not have a significant exposure to any individual debtors or counterparties.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 26(e).

Amounts due from related companies and other receivables are continuously monitored by assessing the credit quality of the counterparty, taking into account its financial position, past experience and other factors. Where necessary, impairment loss is made for estimated irrecoverable amounts. As at December 31, 2011 and 2012, the amounts due from related companies and other receivables were fully performing.

Investments, derivative financial instruments, interest receivable and cash transactions are executed with financial institutions or investment counterparties with sound credit ratings and the Group does not expect any significant counterparty risk. Moreover, credit limits are set for individual counterparties and periodic reviews are conducted to ensure that the limits are strictly followed.

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

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Liquidity risk

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

The Group is subject to certain corporate guarantee obligations to guarantee performance of its subsidiaries in the normal course of their businesses. Please refer to note 40 for details.

The following tables detail the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

In HK$ million	The Group 2011					
	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years	Total contractual undiscounted cash outflow	Carrying amount
Current liabilities						
Short-term borrowings	(42)	–	–	–	(42)	(40)
Trade payables	(1,777)	–	–	–	(1,777)	(1,777)
Accruals and other payables	(4,134)	–	–	–	(4,134)	(4,134)
Amount payable to the Government under the Cyberport Project Agreement	(603)	–	–	–	(603)	(603)
Carrier licence fee liabilities	(199)	–	–	–	(199)	(187)
Amounts due to related companies	(27)	–	–	–	(27)	(27)
	(6,782)	–	–	–	(6,782)	(6,768)
Non-current liabilities						
Long-term borrowings	(686)	(8,750)	(16,011)	–	(25,447)	(23,470)
Carrier licence fee liabilities	–	(171)	(573)	(400)	(1,144)	(815)
Other long-term liabilities	(4)	(28)	(58)	(64)	(154)	(120)
	(690)	(8,949)	(16,642)	(464)	(26,745)	(24,405)
Total	(7,472)	(8,949)	(16,642)	(464)	(33,527)	(31,173)

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Liquidity risk *(continued)*

In HK$ million	The Group 2012					
	Within 1 year or on demand	**More than 1 year but within 2 years**	**More than 2 years but within 5 years**	**More than 5 years**	**Total contractual undiscounted cash inflow/ (outflow)**	**Carrying amount**
Current liabilities						
Short-term borrowings	**(8,757)**	**–**	**–**	**–**	**(8,757)**	**(8,540)**
Trade payables	**(2,380)**	**–**	**–**	**–**	**(2,380)**	**(2,380)**
Accruals and other payables	**(4,129)**	**–**	**–**	**–**	**(4,129)**	**(4,129)**
Amount payable to the Government under the Cyberport Project Agreement	**(959)**	**–**	**–**	**–**	**(959)**	**(959)**
Carrier licence fee liabilities	**(209)**	**–**	**–**	**–**	**(209)**	**(196)**
Amounts due to related companies	**(136)**	**–**	**–**	**–**	**(136)**	**(136)**
	(16,570)	**–**	**–**	**–**	**(16,570)**	**(16,340)**
Non-current liabilities						
Long-term borrowings	**(523)**	**(2,780)**	**(13,992)**	**(2,812)**	**(20,107)**	**(17,926)**
Derivative financial instruments	**20**	**14**	**(23)**	**(243)**	**(232)**	**(56)**
Carrier licence fee liabilities	**–**	**(181)**	**(442)**	**(350)**	**(973)**	**(719)**
Other long-term liabilities	**(25)**	**(28)**	**(11)**	**(77)**	**(141)**	**(101)**
	(528)	**(2,975)**	**(14,468)**	**(3,482)**	**(21,453)**	**(18,802)**
Total	**(17,098)**	**(2,975)**	**(14,468)**	**(3,482)**	**(38,023)**	**(35,142)**

In HK$ million	The Company 2011		
	Within 1 year or on demand	Total contractual undiscounted cash outflow	Carrying amount
Current liabilities			
Accruals and other payables	(19)	(19)	(19)
Total	(19)	(19)	(19)

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Liquidity risk *(continued)*

In HK$ million	The Company 2012					
	Within 1 year or on demand	**More than 1 year but within 2 years**	**More than 2 years but within 5 years**	**More than 5 years**	**Total contractual undiscounted cash inflow/ (outflow)**	**Carrying amount**
Current liabilities						
Accruals and other payables	**(11)**	**–**	**–**	**–**	**(11)**	**(11)**
	(11)	**–**	**–**	**–**	**(11)**	**(11)**
Non-current liabilities						
Amount due to a subsidiary	**(112)**	**(112)**	**(336)**	**(2,812)**	**(3,372)**	**(2,282)**
Derivative financial instruments	**20**	**14**	**(23)**	**(243)**	**(232)**	**(56)**
	(92)	**(98)**	**(359)**	**(3,055)**	**(3,604)**	**(2,338)**
Total	**(103)**	**(98)**	**(359)**	**(3,055)**	**(3,615)**	**(2,349)**

c. Market risk

Market risk composed of foreign currency, interest rate and equity price exposure deriving from the Group's operation, investment and funding activities. As a matter of policy, the Group enters into cross currency swap contracts and other financial instruments to manage its exposure to market risk directly related to its operations and financing. The Group does not undertake any speculative trading activities in connection with these financial instruments or enter into or acquire market risk sensitive instruments for trading purposes.

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

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

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

i. Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises when the Group's recognized assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group's borrowings are mainly denominated in either Hong Kong dollars or United States dollars. As at December 31, 2011 and 2012, majority of the Group's short-term and long-term borrowings denominated in foreign currencies were swapped into Hong Kong dollars by cross currency swap contracts. Given this, management does not expect that there will be any significant currency risk associated with the Group's borrowings. Certain portion of the cross currency swap contracts outstanding as at December 31, 2012 with an aggregate notional contract amount of US$1,800 million (approximately HK$13,952 million) (2011: US$1,500 million (approximately HK$11,664 million)) were designated as cash flow hedges against foreign exchange rate risk.

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

i. Foreign currency risk *(continued)*

In respect of trade receivables and payables held in currencies other than the functional currency of the operations to which they relate, the Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

The following tables detail the Group's and the Company's exposure at the balance sheet date to currency risk arising from significant recognized financial assets or liabilities denominated in foreign currencies.

In HK$ million	The Group			
	2011		**2012**	
	United States Dollars	Chinese Renminbi	**United States Dollars**	**Chinese Renminbi**
Available-for-sale financial assets	490	–	**582**	**–**
Amounts due form related companies	–	–	**–**	**45**
Trade receivables	710	412	**774**	**427**
Cash and cash equivalents	1,246	1,011	**597**	**1,127**
Trade payables	(619)	(187)	**(664)**	**(243)**
Amounts due to related companies	(39)	–	**(286)**	**–**
Short-term borrowings	(31)	(9)	**(3,873)**	**(78)**
Long-term borrowings	(11,729)	–	**(10,159)**	**–**
Gross exposure arising from recognized financial (liabilities)/assets	(9,972)	1,227	**(13,029)**	**1,278**
Net financial assets denominated in respective entities' functional currencies	(352)	(1,230)	**(464)**	**(1,034)**
Notional amounts of cross currency swap contracts designated as cash flow hedges	11,664	–	**13,952**	**–**
Overall net exposure	1,340	(3)	**459**	**244**

In HK$ million	The Company			
	2011		**2012**	
	United States Dollars	Chinese Renminbi	**United States Dollars**	**Chinese Renminbi**
Cash and cash equivalents	20	–	**139**	**231**
Amounts due to a subsidiary	–	–	**(2,282)**	**–**
Gross exposure arising from recognized financial (liabilities)/assets	20	–	**(2,143)**	**231**
Notional amounts of cross currency swap contracts designated as cash flow hedges	–	–	**2,325**	**–**
Overall net exposure	20	–	**182**	**231**

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

i. Foreign currency risk *(continued)*

As at December 31, 2012, if Hong Kong dollar had weakened/strengthened by 1% against the United States dollar, with all other variables held constant, the Group's and the Company's profit after tax for the year would have been increased/decreased by approximately HK$4 million (2011: HK$11 million) and HK$2 million (2011: immaterial) respectively, mainly as a result of foreign exchange gains/losses on translation of United States dollar denominated recognized assets and liabilities which are not hedged by hedging instruments. Meanwhile, the hedging reserve of the Group and the Company as at December 31, 2012 would have been decreased/increased by approximately HK$140 million (2011: HK$117 million) and HK$23 million (2011: nil) respectively, mainly as a result of foreign exchange losses/gains on the long-term borrowings being hedged by cross currency swap contracts.

As at December 31, 2012, if Hong Kong dollar had weakened/strengthened by 5% against the Chinese Renminbi, with all other variables held constant, the Group's and the Company's profit after tax for the year would have been increased/decreased by approximately HK$10 million (2011: immaterial) and HK$10 million (2011: nil) respectively, mainly as a result of foreign exchange gains/losses on translation of Chinese Renminbi denominated recognized assets and liabilities which are not hedged by hedging instruments.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the Group's exposure to currency risk for recognized assets and liabilities in existence at the date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any change in the movement in value of the United States dollar against other currencies. The analysis is performed on the same basis for 2011.

ii. Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises primarily from short-term and long-term borrowings. Borrowings at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. In addition, from time to time, the Group draws under long-term revolving credit and term facilities which are denominated in Hong Kong dollars and pays interest at floating rate.

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

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

ii. Interest rate risk *(continued)*

The following table details the interest rate profile of the Group's borrowings and the Company's amount due to a subsidiary at the balance sheet date, after taking into account the effect of cross currency swap contracts designated as cash flow and fair value hedging instruments.

In HK$ million, except for %	The Group				The Company			
	2011 Effective interest rate %		**2012 Effective interest rate %**		2011 Effective interest rate %		**2012 Effective interest rate %**	
Net fixed rate borrowings:								
Short term borrowings with cash flow hedging instruments	–	–	**6.13**	**3,873**	–	–	**–**	**–**
Long term borrowings with cash flow hedging instruments	5.77	7,748	**5.42**	**3,861**	–	–	**–**	**–**
		7,748		**7,734**		–		**–**
Variable rate borrowings:								
Bank borrowings	1.45	11,783	**1.64**	**12,434**	–	–	**–**	**–**
Long term borrowings with fair value hedging instruments	4.46	3,979	**5.01**	**6,298**	–	–	**–**	**–**
Variable rate balance with a subsidiary:								
Amount due to a subsidiary with fair value hedging instruments	–	–	**–**	**–**	–	–	**5.97**	**2,282**
		15,762		**18,732**		–		**2,282**
Total borrowings		23,510		**26,466**		–		**2,282**

At December 31, 2012, if interest rates on Hong Kong dollar denominated borrowings had been increased/decreased by 10 basis points, with all other variables held constant, the Group's and the Company's profit after tax for the year would have been decreased/increased by approximately HK$14 million (2011: HK$11 million) and HK$1 million (2011: nil) respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

The sensitivity analysis above has been determined assuming that the change in interest rate had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for the Group's floating rate borrowings in existence at that date. The 10 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis was performed on the same basis for 2011.

iii. Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale financial assets (see note 25). Other than unquoted equity securities held for strategic purposes, all of these investments are listed on a recognized stock exchange.

To manage its equity price risk, the portfolio is diversified in accordance with the limits set by the Group. Given the insignificant portfolio of listed equity securities held by the Group, management believes that the Group's equity price risk is minimal.

Performance of the Group's unquoted investments held for long term strategic purposes is assessed at least semi-annually against performance of their business as well as similar listed entities, based on the limited information available to the Group, together with an assessment of their relevance to the Group's long term strategic plans.

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

d. Fair values

All financial instruments are carried at amounts not materially different from their fair values as at December 31, 2011 and 2012 except as follows, with fair value calculated by quoted prices:

In HK$ million	The Group			
	2011		**2012**	
	Carrying amount	Fair value	**Carrying amount**	**Fair value**
Short-term borrowings	(40)	(40)	**(8,540)**	**(8,635)**
Long-term borrowings	(23,470)	(23,861)	**(17,926)**	**(18,661)**

e. Estimation of fair values

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

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

The following tables present the Group's and the Company's assets and liabilities that are measured at fair value at December 31, 2012:

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

In HK$ million	The Group **2012**			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Available-for-sale financial assets				
– Listed equity securities	**98**	**–**	**–**	**98**
– Unlisted equity securities	**–**	**–**	**587**	**587**
Derivative financial instruments (non-current)	**–**	**253**	**–**	**253**
Derivative financial instruments (current)	**–**	**4**	**–**	**4**
Total assets	**98**	**257**	**587**	**942**
Liabilities				
Derivative financial instruments (non-current)	**–**	**(56)**	**–**	**(56)**

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

e. Estimation of fair values *(continued)*

In HK$ million	The Company Level 2 2011	**2012**
Liabilities		
Derivative financial instruments (non-current)	–	**(56)**

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

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques and making assumptions that are based on market conditions existing at the end of each reporting period. Instruments included in level 2 comprise cross currency swap contracts. In measuring the swap transactions, the fair value is the net present value of the estimated future cash flows discounted at the market quoted swap rates.

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

For unlisted securities or financial assets without an active market, the Group establish the fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same, and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs. If none of the valuation techniques results in a reasonable estimate on the fair value, the investment is stated in the balance sheet at cost less impairment losses.

There were no significant transfers of financial assets between level 1 and level 2 fair value hierarchy classifications.

The following table presents the changes in level 3 instruments for the year ended December 31, 2012:

In HK$ million	The Group **Available-for-sale financial assets – unlisted equity securities** 2011	**2012**
Opening balance	225	**497**
Additions	229	**129**
Return of investment	–	**(7)**
Disposals	(31)	**–**
Unrealized fair value gains/(losses) transferred to equity	74	**(32)**
	497	**587**

The estimated fair value of level 3 financial assets as at December 31, 2012 was HK$587 million (2011: HK$497 million).

39 COMMITMENTS

a. Capital

In HK$ million	The Group	
	2011	**2012**
Authorized and contracted for	1,412	**1,728**
Authorized but not contracted for	968	**790**
	2,380	**2,518**

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

In HK$ million	The Group	
	2011	**2012**
Investments	285	**345**
Investment properties	11	**13**
Intangible assets	29	**23**
Property development projects	86	**58**
Acquisition of property, plant and equipment	1,968	**2,077**
Others	1	**2**
	2,380	**2,518**

b. Operating leases

As at December 31, 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

Land and buildings

In HK$ million	The Group	
	2011	**2012**
Within 1 year	753	**822**
After 1 year but within 5 years	1,008	**1,504**
After 5 years	308	**593**
	2,069	**2,919**

Network capacity and equipment

In HK$ million	The Group	
	2011	**2012**
Within 1 year	391	**1,001**
After 1 year but within 5 years	348	**611**
After 5 years	155	**305**
	894	**1,917**

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

39 COMMITMENTS *(CONTINUED)*

c. Others

As at December 31, 2012, the Group has other outstanding commitments as follows:

In HK$ million	The Group	
	2011	**2012**
Purchase of rights to broadcast certain TV content	1,075	**1,124**
Operating expenditure commitment	237	**235**
	1,312	**1,359**

40 CONTINGENT LIABILITIES

In HK$ million	The Group		The Company	
	2011	**2012**	2011	**2012**
Performance guarantee	444	**477**	172	**149**
Tender guarantee	1	**–**	–	**–**
Guarantee given for notes issued by a subsidiary	–	**–**	–	**2,325**
Guarantee given to banks in respect of credit facilities granted to an associate	–	**60**	–	**–**
Guarantee in lieu of cash deposit	4	**4**	2	**2**
Employee compensation	3	**4**	3	**4**
Guarantee indemnity	11	**11**	–	**–**
Others	12	**12**	–	**–**
	475	**568**	177	**2,480**

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

41 BANK LOAN FACILITIES

Aggregate bank loan facilities as at December 31, 2012 were HK$30,464 million (2011: HK$23,851 million) of which the unused facilities amounted to HK$17,962 million (2011: HK$11,955 million).

A summary of short-term and long-term borrowings is set out in notes 26(f) and 27.

Security pledged for certain bank loan facilities includes:

In HK$ million	The Group	
	2011	**2012**
Property, plant and equipment	67	**42**
Investment properties	5,370	**5,777**
Trade receivables	37	**–**
Bank deposit	2	**–**
	5,476	**5,819**

42 BUSINESS COMBINATIONS

a. Business combinations during the year ended December 31, 2012

i. Acquisition of Gateway Communications (UK) Limited, Gateway Communications S.A., Gateway Communications S.A.S., Gateway Communications Mozambique Limitada, Gateway Communications (Proprietary) Limited, and certain assets and liabilities of Gateway Communications Africa (UK) Limited (together the "Gateway Group")

On August 31, 2012, the Group acquired 100% of the share capital of Gateway Communications (UK) Limited, Gateway Communications S.A., Gateway Communications S.A.S., Gateway Communications Mozambique Limitada, Gateway Communications (Proprietary) Limited, and certain assets and liabilities of Gateway Communications Africa (UK) Limited, companies incorporated in the United Kingdom, Belgium, France, Mozambique, South Africa, and the United Kingdom, respectively. The purpose of the acquisition is to expand the Group's international voice and data services businesses. The acquirees' business covers the provision of international voice services and data services. The Group made a payment for acquisition totaling HK$268 million in cash.

The Group is required to recognize the acquirees' identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the acquisition date. As of the date of these consolidated financial statements, the purchase price allocation process is ongoing and has yet to be finalized. In the preparation of these consolidated financial statements, the Group has used the estimated fair values of the acquired assets and liabilities with the excess of the cost of acquisition over these estimated fair values being recorded as goodwill. This allocation of the purchase price allocation to the acquired assets and liabilities is provisional and will be adjusted in the Group's 2013 consolidated financial statements when the purchase price allocation is finalized. Had the purchase price allocation been completed, the fair values of the assets and liabilities acquired and the amount of goodwill to be recorded could be materially different from the amounts recognized. The values of assets and liabilities acquired and the resulting goodwill will be adjusted retrospectively upon the completion of the purchase price allocation in 2013.

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

In HK$ million

	Net assets acquired and goodwill
Purchase consideration settled in cash	268
Less: Estimated fair value of net assets acquired	(260)
Obligation assumed upon business combinations	121
Goodwill on acquisition	129

The goodwill is attributable to future profit generated from the provision of international voice services and data services.

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

In HK$ million

	Estimated fair value	Carrying amount
Property, plant and equipment	178	178
Intangible assets	118	–
Trade receivables, prepayments, deposits and other current assets	927	927
Cash and cash equivalents	41	41
Trade payables, accruals, other payables and advances from customers	(1,001)	(1,001)
Current income tax liabilities	(1)	(1)
Deferred income tax liabilities	(2)	(2)
Net assets acquired	260	142
Obligation assumed upon business combinations	121	121

42 BUSINESS COMBINATIONS *(CONTINUED)*

a. Business combinations during the year ended December 31, 2012 *(continued)*

i. Acquisition of Gateway Communications (UK) Limited, Gateway Communications S.A., Gateway Communications S.A.S., Gateway Communications Mozambique Limitada, Gateway Communications (Proprietary) Limited, and certain assets and liabilities of Gateway Communications Africa (UK) Limited (together the "Gateway Group") *(continued)*

(i) Details of net assets acquired and goodwill in respect of acquisitions of the Gateway Group at the acquisition date were as follows: *(continued)*

In HK$ million

	Net cash outflow
Purchase consideration settled in cash	(268)
Cash and cash equivalents of the Gateway Group acquired	41
	(227)
Settlement of obligation assumed upon business combinations	(121)

(ii) Acquisition-related costs

Acquisition-related costs of HK$12 million are included in the consolidated income statement for the year ended December 31, 2012.

(iii) Revenue and profit contribution

The business of Gateway Group has been integrated into the business of the Group since the acquisition date. Accordingly, it is not practical to quantify the individual contribution of the Gateway Group to the revenue and profit of the Group during the year ended December 31, 2012 on a reasonable basis.

ii. Acquisition of Vandasoft Technology Holdings Limited and its subsidiaries (together the "Vanda Group")

The Group acquired 100% of the issued share capital of Vandasoft Technology Holdings Limited, a company incorporated in the British Virgin Islands and its subsidiaries with a consideration of approximately HK$8 million on the effective acquisition date of November 26, 2012. The purpose of the acquisition is to expand the Group's system integration business in mainland China. The business of the Vanda Group covers the system integration, trading of hardware and system software and the provision of maintenance services in mainland China.

The Group is required to recognize the acquirees' identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the acquisition date. As of the date of these financial statements, the purchase price allocation process is ongoing and has yet to be finalized. In the preparation of these consolidated financial statements, the Group has used the estimated fair values of the acquired assets and liabilities with the excess of the cost of acquisition over these estimated fair values being recorded as goodwill. This allocation of the purchase price allocation to the acquired assets and liabilities is provisional and will be adjusted in the Group's 2013 consolidated financial statements when the purchase price allocation is finalized. Had the purchase price allocation been completed, the fair values of the assets and liabilities acquired and the amount of goodwill to be recorded could be materially different from the amounts recognized. The values of assets and liabilities acquired and the resulting goodwill will be adjusted retrospectively upon the completion of the purchaser price allocation in 2013.

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

In HK$ million

	Net liabilities acquired and goodwill
Purchase consideration settled in cash	8
Less: Estimated fair value of net liabilities acquired	59
Goodwill on acquisition	67

The goodwill is attributable to future profit generated from the system integration, trading of hardware and system software and the provision of maintenance services in mainland China.

42 BUSINESS COMBINATIONS *(CONTINUED)*

a. Business combinations during the year ended December 31, 2012 *(continued)*

ii. Acquisition of Vandasoft Technology Holdings Limited and its subsidiaries (together the "Vanda Group") *(continued)*

(i) Details of net liabilities acquired and goodwill in respect of acquisition of the Vanda Group at the acquisition date were as follows: *(continued)*

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

In HK$ million	Estimated fair value	Carrying Amount
Property, plant and equipment	12	11
Interests in leasehold land	4	4
Intangible assets	2	2
Trade receivables, prepayments, deposits and other current assets	29	71
Cash and cash equivalents	15	15
Short-term borrowings	(78)	(78)
Trade payables, accruals and other payables	(38)	(38)
Current income tax liabilities	(5)	(5)
Net liabilities acquired	(59)	(18)

In HK$ million	Net cash inflow
Purchase consideration settled in cash	(8)
Cash and cash equivalents of the Vanda Group acquired	15
	7

(ii) Acquisition-related costs

Acquisition-related costs of HK$1 million are included in the consolidated income statement for the year ended December 31, 2012.

(iii) Revenue and profit contribution

The acquired business contributed revenue of HK$9 million and resulted in an immaterial contribution to net profit of the Group for the period from the date of acquisition to December 31, 2012. If the acquisition had occurred on January 1, 2012, the acquired business's revenue would have been HK$95 million, and net loss for the year ended December 31, 2012 would have been HK$23 million.

b. Business combinations during the year ended December 31, 2011

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

43 TRANSACTION WITH NON-CONTROLLING INTERESTS

a. Transaction with non-controlling interests during the year ended December 31, 2012

In HK$ million	2011	**2012**
Consideration paid to acquire non-controlling interests of subsidiaries	–	**1,559**
Less: Carrying amount of non-controlling interests acquired	–	**(2,304)**
Excess of non-controlling interests acquired over consideration paid recognized within equity	–	**(745)**

i. Increase in interests in PCPD

During the year ended December 31, 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$1,554 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$746 million.

In order to maintain its public float, PCPD offered a 4 for 1 bonus issue to its shareholders where shareholders could 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.

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

During the year, 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.

iii. Distributions in Specie

During the year ended December 31, 2012, the Company settled the Distributions in Specie (see note 14).

b. Transaction with non-controlling interests during the year ended December 31, 2011

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

44 POSSIBLE IMPACT OF AMENDMENTS, NEW OR REVISED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2012

Up to the date of approval of these financial statements, the HKICPA has issued the following amendments, new or revised standards and interpretations which are not yet effective for the accounting period ended December 31, 2012 and which have not been adopted in these financial statements:

		Effective for accounting periods beginning on or after
HKAS 1 (Revised) (Amendment)	Presentation of Financial Statements	July 1, 2012
HKFRS 1 (Revised) (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards	January 1, 2013
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities	January 1, 2013
HKFRS 10	Consolidated Financial Statements	January 1, 2013
HKFRS 10 (Amendment)	Consolidated Financial Statements – Transition Disclosures	January 1, 2013
HKFRS 11	Joint Arrangements	January 1, 2013
HKFRS 11 (Amendment)	Joint Arrangements – Transition Disclosures	January 1, 2013
HKFRS 12	Disclosure of Interests in Other Entities	January 1, 2013
HKFRS 12 (Amendment)	Disclosure of Interests in Other Entities – Transition Disclosures	January 1, 2013
HKFRS 13	Fair Value Measurement	January 1, 2013
HKAS 19 (2011)	Employee Benefits	January 1, 2013
HKAS 27 (2011)	Separate Financial Statements	January 1, 2013
HKAS 28 (2011)	Investments in Associates and Joint Ventures	January 1, 2013
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Mandatory Effective Date and Transition Disclosures	January 1, 2015
HKFRS 9	Financial Instruments	January 1, 2015
HKFRS 9 (Amendment)	Financial Instruments – Mandatory Effective Date and Transition Disclosures	January 1, 2015
Annual Improvements 2009-2011 Cycle published in June 2012 by HKICPA		January 1, 2013

Apart from the above, a number of improvements and minor amendments to HKFRSs have also been issued by the HKICPA but they are not yet effective for the accounting period ended December 31, 2012 and have not been adopted in these financial statements.

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

FIVE YEAR FINANCIAL SUMMARY

For the year ended December 31, 2012

Results In HK$ million	2008	2009	2010	2011	**2012**
Turnover	31,951	25,077	22,962	24,638	**25,318**
Cost of sales	(17,850)	(12,254)	(10,533)	(11,397)	**(11,816)**
General and administrative expenses	(10,005)	(9,029)	(8,924)	(9,604)	**(10,148)**
Other (losses)/gains, net	(464)	168	1,217	143	**371**
Losses on property, plant and equipment	(103)	(61)	–	–	**–**
Interest income	197	18	27	71	**62**
Finance costs	(1,473)	(1,485)	(1,587)	(1,565)	**(966)**
Share of results of equity accounted entities	11	(55)	(82)	32	**(22)**
Impairment losses (recognized)/reversed on interests in associates and jointly controlled companies	(31)	1	–	–	**–**
Profit before income tax	2,233	2,380	3,080	2,318	**2,799**
Income tax	(711)	(585)	(756)	(542)	**(232)**
Profit for the year	1,522	1,795	2,324	1,776	**2,567**
Attributable to:					
Equity holders of the Company	1,272	1,506	1,926	1,607	**1,663**
Non-controlling interests	250	289	398	169	**904**

Assets and Liabilities As at December 31, in HK$ million	2008	2009	2010	2011	**2012**
Total non-current assets	29,535	27,934	29,387	30,909	**33,070**
Total current assets	27,070	17,049	18,746	14,941	**16,774**
Total current liabilities	(16,723)	(9,827)	(17,744)	(10,747)	**(19,412)**
Net current assets/(liabilities)	10,347	7,222	1,002	4,194	**(2,638)**
Total assets less current liabilities	39,882	35,156	30,389	35,103	**30,432**
Total non-current liabilities	(34,982)	(37,181)	(30,997)	(27,523)	**(22,115)**
Net assets/(liabilities)	4,900	(2,025)	(608)	7,580	**8,317**

Distributable Reserves of the Company As at December 31, in HK$ million	2008	2009	2010	2011	**2012**
Distributable reserves of the Company	27,584	18,843	19,521	17,120	**17,418**

SCHEDULE OF PRINCIPAL PROPERTIES

Year 2012

Property	Classification	Status	Existing Use	Gross Site Area (sq.m.)	Gross Floor Area (sq.m.)	Lease Term*	Group's Interest
The PRC							
Pacific Century Place, No.2A Gong Ti Bei Lu, Chaoyang District, Beijing, the PRC							
Tower A (except part of 6th, 8th, 10th and 13th Floor for own use)	Investment properties	Existing	Office for lease	27,028	40,077	Medium	74.5%
Tower B	Investment properties	Existing	Office for lease		17,558	Medium	74.5%
Tower C	Investment properties	Existing	Residential		21,232	Long	74.5%
Tower D	Investment properties	Existing	Residential		10,155	Long	74.5%
Podium	Investment properties	Existing	For lease		75,431	Medium	74.5%
Car parking spaces	Investment properties	Existing	For lease		794 spaces	Medium	74.5%
Hong Kong							
Part of 18th Floor of Paramount Building, No.12 Ka Yip Street, Chai Wan, Hong Kong	Investment properties	Existing	For lease	Not applicable	520	Medium	100%

* Lease term:
Long term: Lease not less than 50 years
Medium term: Lease less than 50 years but not less than 10 years

INVESTOR RELATIONS

DIRECTORS
The directors of the Company as at the date of the announcement of the 2012 Annual Results are:

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

Non-Executive Directors:
Sir David Ford, KBE, LVO
Tse Sze Wing, Edmund, GBS
Lu Yimin *(Deputy Chairman)*
Li Fushen
Li Gang
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
Lars Eric Nils Rodert

GROUP COMPANY SECRETARY
Philana WY Poon

REGISTERED OFFICE
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Quarry Bay, Hong Kong
Telephone: +852 2888 2888
Fax: +852 2877 8877

ANNUAL REPORT 2012
This Annual 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/ir) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk).

Shareholders who:
A) received the Annual Report 2012 using electronic means through the website of the Company may request a printed copy, or
B) received the Annual 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
Telephone: +852 2862 8688
Fax: +852 2529 6087
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 Annual Report 2012) using electronic means through the Company's website and who, for any reason, have difficulty in receiving or gaining access to the Annual Report 2012 will promptly, upon request in writing or by email to the Company's Share Registrar, be sent the Annual Report 2012 in printed form, free of charge.

Shareholders may change their choice of language and/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.

Owners of record as of the close of business on the ADR record date of American Depositary Shares can vote by proxy at the annual general meeting by completing a voting instruction card provided by the Depositary Bank. The Depositary Bank will tabulate and transmit the amount of ordinary share votes to the Company before the annual general meeting.

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

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

SHARE INFORMATION

Board lot:	1,000 shares
Issued shares as at December 31, 2012:	7,272,294,654 shares

DIVIDEND
Dividends per ordinary share for the year ended December 31, 2012:

Interim	5.51 HK cents
Final	13.55 HK cents

FINANCIAL CALENDAR

Announcement of 2012 Annual Results	February 27, 2013
Closure of register of members (for determination of shareholders who qualify for 2012 final dividend)	May 16-20, 2013 (both days inclusive)
Record date for 2012 final dividend	May 20, 2013
Payment of 2012 final dividend	on or around June 5, 2013

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WEBSITE
www.pccw.com

Forward-Looking Statements

This annual report contains forward-looking statements. These forward-looking statements include, without limitation, statements relating to revenues and earnings. The words "believe", "intend", "expect", "anticipate", "project", "estimate", "predict", "is confident", "has confidence" and similar expressions are also intended to identify forward-looking statements. These forward-looking statements are not historical facts. Rather, the forward-looking statements are based on the current beliefs, assumptions, expectations, estimates and projections of the directors and management of PCCW about the business, 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 and challenges in growing business organically;
- 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 annual report only. We undertake no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after publication of this annual report.

PCCW Limited (Incorporated in Hong Kong with limited liability)

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