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PCCW Limited
電訊盈科有限公司
(Incorporated in Hong Kong with limited liability)
(Stock Code: 0008)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2009

The directors (“Directors”) of PCCW Limited (“PCCW” or the “Company”) are pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended December 31, 2009.

- Consolidated profit attributable to equity holders of the Company increased by 18% to HK\$1,506 million
- Core revenue decreased by 5% to HK\$20,855 million; consolidated revenue including PCPD decreased by 22% to HK\$25,077 million, reflecting lower property development revenue recognized
- Core EBITDA remained firm at HK\$6,718 million; consolidated EBITDA including PCPD decreased by 6% to HK\$7,499 million
- TV & Content achieved profitability milestone in 2009
- Basic earnings per share improved to 22.24 HK cents in 2009 from 18.78 HK cents in 2008
- Final dividend of 13.3 HK cents per share

Note:

Core revenue refers to consolidated revenue excluding Pacific Century Premium Developments Limited (“PCPD”), the Group’s property development and investment business; while core EBITDA refers to consolidated EBITDA excluding PCPD.

MANAGEMENT REVIEW

Against a backdrop of economic downturn, intense market competition and adverse regulatory decisions, our businesses recorded a satisfactory performance in 2009. Core EBITDA for the year ended December 31, 2009 remained firm at HK\$6,718 million, with core EBITDA margin improving to 32% in 2009 from 31% in 2008, even though core revenue for the year decreased by 5% to HK\$20,855 million.

PCPD revenue, while including revenue from ONE Pacific Heights sales, was HK\$4,222 million, lower than HK\$9,943 million a year ago because of significantly lower revenue recognition from the Bel-Air property development project during the year. PCPD EBITDA, therefore, dropped to HK\$781 million for the year ended December 31, 2009 from HK\$1,268 million a year earlier.

Consolidated revenue including PCPD for the year ended December 31, 2009 was HK\$25,077 million, compared with HK\$31,951 million in 2008. Consolidated EBITDA including PCPD amounted to HK\$7,499 million, compared with HK\$7,982 million a year earlier.

Consolidated profit attributable to equity holders of the Company for the year ended December 31, 2009 jumped 18% to HK\$1,506 million. Basic earnings per share improved to 22.24 HK cents in 2009 from 18.78 HK cents in 2008.

The board of Directors (the “Board”) has recommended the payment of a final dividend of 13.3 HK cents per share for the year ended December 31, 2009.

OUTLOOK

Having successfully adjusted its cost base in the past year, the Company is ready for the challenges and opportunities in 2010 as the global economy continues on its path to recovery. While remaining vigilant about costs, we will continue to invest in new technology, networks and our services.

Our powerful high-speed networks, innovation, strong content offerings, and not least our focus on excellent customer experience have given us the edge to meet the expectations of customers. Furthermore, following the successive turnarounds of the Mobile business in 2007 and the TV & Content business in 2009, all our quadruple-play segments are now contributing positive EBITDA and represent a solid platform for further development. As business and consumer market conditions improve, we are well poised to further grow our business activities with an aim to enhance the return to shareholders.

FINANCIAL REVIEW BY SEGMENTS

For the year ended December 31, HK\$ million	2009			2008			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
Revenue							
TSS	8,241	8,051	16,292	8,551	8,914	17,465	(7)%
TV & Content	1,092	1,258	2,350	1,039	1,200	2,239	5%
Mobile	828	842	1,670	857	887	1,744	(4)%
PCCW Solutions	905	939	1,844	900	966	1,866	(1)%
Other Businesses	26	35	61	43	43	86	(29)%
Eliminations	(624)	(738)	(1,362)	(636)	(756)	(1,392)	2%
Core revenue	10,468	10,387	20,855	10,754	11,254	22,008	(5)%
PCPD	2,306	1,916	4,222	618	9,325	9,943	(58)%
Consolidated revenue	12,774	12,303	25,077	11,372	20,579	31,951	(22)%
Cost of sales	(6,431)	(5,823)	(12,254)	(4,942)	(12,908)	(17,850)	31%
Operating costs before depreciation, amortization and restructuring costs	(2,753)	(2,571)	(5,324)	(2,994)	(3,125)	(6,119)	13%
EBITDA¹							
TSS	3,421	3,629	7,050	3,549	3,907	7,456	(5)%
TV & Content	(34)	38	4	(40)	(43)	(83)	NA
Mobile	130	135	265	108	134	242	10%
PCCW Solutions	82	127	209	82	113	195	7%
Other Businesses	(315)	(495)	(810)	(335)	(761)	(1,096)	26%
Core EBITDA¹	3,284	3,434	6,718	3,364	3,350	6,714	0%
PCPD	306	475	781	72	1,196	1,268	(38)%
Consolidated EBITDA¹	3,590	3,909	7,499	3,436	4,546	7,982	(6)%
<i>Core EBITDA Margin^{1,2}</i>	31%	33%	32%	31%	30%	31%	1%
<i>Consolidated EBITDA Margin^{1,2}</i>	28%	32%	30%	30%	22%	25%	5%
Depreciation and amortization	(1,889)	(1,891)	(3,780)	(1,750)	(1,946)	(3,696)	(2)%
Loss on disposal of, and losses on, property, plant and equipment	–	(61)	(61)	–	(122)	(122)	50%
Net other gains/(losses) and restructuring costs	(12)	255	243	16	(651)	(635)	NA
Interest income	12	6	18	74	123	197	(91)%
Finance costs	(748)	(737)	(1,485)	(664)	(809)	(1,473)	(1)%
Share of results of associates and jointly controlled companies	10	(65)	(55)	(7)	18	11	NA
Impairment losses reversed/(recognized) on interests in an associate and a jointly controlled company	(41)	42	1	–	(31)	(31)	NA
Profit before income tax	922	1,458	2,380	1,105	1,128	2,233	7%

- Note 1 EBITDA represents earnings before interest income, finance costs, income tax, depreciation of property, plant and equipment, amortization of land lease premium and intangible assets, gain/loss on disposal of property, plant and equipment, investment properties and interests in leasehold land, net other gains/losses, losses on property, plant and equipment, restructuring costs, impairment losses on interests in 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 Year-on-year percentage change was based on absolute percentage change.*
- Note 3 Figures are stated as at the period end, except for International Direct Dial ("IDD") minutes which is the total for the period.*
- Note 4 Gross debt refers to the principal amount of short-term borrowings and long-term borrowings. Net debt refers to the principal amount of short-term borrowings and long-term borrowings minus cash and cash equivalents and certain restricted cash.*
- Note 5 Group capital expenditure includes additions to property, plant and equipment, investment properties and interests in leasehold land.*

OPERATING DRIVERS⁴	2009		2008		Better/ (Worse) y-o-y
	H1	H2	H1	H2	
Exchange lines in service ('000)	2,590	2,588	2,593	2,603	(1)%
Business lines ('000)	1,183	1,182	1,185	1,195	(1)%
Residential lines ('000)	1,407	1,406	1,408	1,408	0%
Total broadband access lines ('000) (Consumer, business and wholesale customers)	1,305	1,297	1,275	1,302	0%
Retail consumer broadband subscribers ('000)	1,136	1,146	1,099	1,126	2%
Retail business broadband subscribers ('000)	113	114	110	113	1%
Traditional data (Exit Gbps)	792	837	842	927	(10)%
Retail IDD minutes ('M mins)	745	710	907	878	(18)%
International Private Leased Circuit bandwidth (Exit Mbps)	78,361	82,913	61,617	78,202	6%
nOW TV installed base ('000)	992	1,001	927	953	5%
Mobile subscribers ('000)	1,408	1,422	1,176	1,313	8%
3G post-paid ('000)	470	529	288	414	28%
2G post-paid ('000)	430	376	459	440	(15)%
2G prepaid ('000)	508	517	429	459	13%

Telecommunications Services (“TSS”)

The table below sets out the financial performance of TSS for the year ended December 31, 2009 and December 31, 2008:

For the year ended December 31, HK\$ million	2009			2008			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
Local Telephony Services	2,126	1,862	3,988	2,284	2,280	4,564	(13)%
Local Data Services	2,509	2,434	4,943	2,415	2,480	4,895	1%
International Telecommunications Services	1,807	1,871	3,678	1,911	1,906	3,817	(4)%
Other Services	1,799	1,884	3,683	1,941	2,248	4,189	(12)%
TSS Revenue	8,241	8,051	16,292	8,551	8,914	17,465	(7)%
Cost of sales	(2,954)	(3,103)	(6,057)	(2,922)	(3,229)	(6,151)	2%
Operating costs before depreciation and amortization	(1,866)	(1,319)	(3,185)	(2,080)	(1,778)	(3,858)	17%
TSS EBITDA¹	3,421	3,629	7,050	3,549	3,907	7,456	(5)%
TSS EBITDA margin^{1,2}	42%	45%	43%	42%	44%	43%	

TSS revenue for the year ended December 31, 2009 was HK\$16,292 million, a decrease of 7% from a year ago partly due to the adverse revenue impact from the change of the regulatory regime on fixed-mobile interconnection charges (“FMIC”) in April 2009. While EBITDA was lower at HK\$7,050 million, EBITDA margin was maintained at the same level compared to a year ago, as operating costs were lower due to slower business activities and cost saving initiatives implemented during the year.

Local Telephony Services. Local telephony services revenue for the year ended December 31, 2009 decreased by 13% to HK\$3,988 million. This was partly due to the decline in interconnection revenue during the year. Despite business lines contraction in Hong Kong immediately following the financial crisis, our total fixed lines in service at the end of December 2009 were maintained at approximately 2,588,000, as residential lines were underpinned by a higher pick-up of PCCW **eye** Multimedia Service and PCCW **eye2**, which carried a higher ARPU.

Local Data Services. Local data services revenue for the year ended December 31, 2009 increased by 1% to HK\$4,943 million. Undeterred by fierce market competition, broadband network revenue grew 3% on the back of an increase in both consumer and business broadband revenues, with a strong and stable ARPU maintained. This growth was partially offset by a slight decline in local data revenue in line with the slowdown of activities in the commercial sector. Total broadband access lines in service remained relatively stable at 1,297,000 at the end of December 2009.

International Telecommunications Services. International telecommunications services revenue for the year ended December 31, 2009 decreased by 4% to HK\$3,678 million. Wholesale voice and international connectivity services revenues increased modestly. However, IDD revenue from consumer and business customers was lower, as the business sector was yet to fully recover from the financial crisis. Retail IDD totaled 1,455 million minutes in 2009, down by 18% from a year ago. Local access charge revenue also declined due to the increased substitution of fixed-line services by mobile.

Other Services. Other services revenue primarily included revenue from the sales of network equipment and customer premises equipment (“CPE”) to consumers and enterprises, teleservices business, and provision of technical and maintenance services. The decline of the CPE business for enterprises which became very cost cautious amid the difficult economic conditions led to a 12% drop in other services revenue to HK\$3,683 million for the year ended December 31, 2009. On the other hand, the teleservices revenue increased by 32% during the year. The business had benefited from the outsourcing trend and expanded both organically and through acquisition. The newly-acquired call center operations in America and the Philippines had contributed to a strong growth in teleservices revenue.

TV & Content

For the year ended December 31, HK\$ million	2009			2008			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
TV & Content Revenue	1,092	1,258	2,350	1,039	1,200	2,239	5%
TV & Content EBITDA¹	(34)	38	4	(40)	(43)	(83)	NA

TV & Content subscription revenue surged 11% from an expanding subscriber base and ARPU growth for the year ended December 31, 2009. However, advertising revenue was lower due to the post-crisis contraction of total market advertising spending during the year. TV & Content revenue, therefore, increased by 5% to HK\$2,350 million for the year ended December 31, 2009. These achievements also enabled TV & Content to turn into a positive EBITDA of HK\$4 million for 2009.

now TV continued to boost the variety and quality of its programming and carried the widest selection of content line-up with more than 170 channels and on-demand service of local, Asian and international programming at the end of December 2009. **now** TV also hit its millionth mark during the year, with the installed subscriber base increasing by 5% to reach 1,001,000 at the end of December 2009. Installed base ARPU also increased to HK\$174 at the end of December 2009, from HK\$171 a year earlier.

Mobile

For the year ended December 31, HK\$ million	2009			2008			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
Mobile Revenue	828	842	1,670	857	887	1,744	(4)%
Mobile EBITDA¹	130	135	265	108	134	242	10%

Mobile subscription revenue increased markedly by 9% due to a larger subscriber base and strong growth in mobile data revenue. Total mobile revenue for the year ended December 31, 2009, however, was slightly lower at HK\$1,670 million because of a considerable reduction in the sales of low-margin handsets and accessories in 2009. Instead of reliance on handset subsidies to attract customers, PCCW mobile enhances value proposition to customers with PCCW's quadruple-play capability. The strategy to grow business through higher-end customers, coupled with economy of scale arising from the increasing subscriber base, helped the Company record a 10% increase in EBITDA to HK\$265 million despite intense competition in the mobile market.

The availability of more smart phones and other wireless devices has helped create an increasing demand for mobile data service. As a result, there were more subscriptions on our data service plans, and our mobile data revenue surged by 34% during the year.

PCCW mobile's total subscribers reached 1,422,000 at the end of 2009, an increase of 8% over the previous year. Of these, total post-paid subscribers grew 6% to 905,000 in 2009. The 3G subscriber base expanded significantly to 529,000, 28% higher than a year ago. 3G subscribers as a percentage of the total post-paid subscriber base trended higher to 58% at the end of December 2009, compared to 48% a year earlier.

Mobile ARPU was softer due to competitive pricing pressure. Our 3G ARPU in December 2009 was HK\$183, compared to HK\$216 in December 2008, while our blended 2G and 3G ARPU in December 2009 was HK\$138, compared to HK\$153 a year earlier.

PCCW Solutions

For the year ended December 31, HK\$ million	2009			2008			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
PCCW Solutions Revenue	905	939	1,844	900	966	1,866	(1)%
PCCW Solutions EBITDA¹	82	127	209	82	113	195	7%

PCCW Solutions has unparalleled experience and expertise in systems integration, data center services, IT outsourcing and business process outsourcing. It weathered the financial crisis largely unscathed because of its strength in securing contracts from both the public and private sectors as well as mainland telecommunications companies. The mainland economy has also withstood the global crisis well and its telecom sector is evolving dynamically following the restructuring, benefiting both PCCW Solutions business and our joint venture with China Telecom.

During 2009, demand for data center services remained strong as evidenced by the keen uptake by multinational corporations of capacity planned for the new mega data centers in Hong Kong.

As a result, PCCW Solutions revenue was solid at HK\$1,844 million for the year ended December 31, 2009. EBITDA continued its upward trend and increased by 7% to HK\$209 million.

PCPD

PCPD recorded a revenue of HK\$4,222 million and EBITDA of HK\$781 million for the year ended December 31, 2009, compared with HK\$9,943 million and HK\$1,268 million respectively a year earlier. The better results in 2008 were due to revenue recognized from the sales of a major phase of Bel-Air which took place during that year.

In Hong Kong, the luxury houses at Villa Bel-Air are expected to be released gradually to the market over the next few years, while handover of sold units at ONE Pacific Heights in west of Central continued during the year.

In mainland China, Pacific Century Place, PCPD's investment property in Beijing, enjoyed an average occupancy rate of approximately 73% in 2009. In August 2009, PCPD entered into an agreement to sell its property development project at the Chaoyang District in Beijing, and the transaction was completed in October 2009.

For more information about the performance of PCPD, please refer to its 2009 annual results released on March 9, 2010.

Other Businesses

Other Businesses primarily comprised certain overseas operations and corporate support functions. Revenue from Other Businesses was HK\$61 million for the year ended December 31, 2009. The Group reorganized certain corporate support functions during the year, resulting in greater operating efficiency. The cost to the Group of Other Businesses reduced by 26% to HK\$810 million in the current year.

Eliminations

Eliminations was HK\$1,362 million for the year ended December 31, 2009. Eliminations is related to internal charges for telecommunications services consumed, IT support and computer system network charges, customer support services and rental among the Group's business units.

Costs

Cost of Sales

For the year ended December 31, HK\$ million	2009			2008			Better/ (Worse) y-o-y
	H1	H2	Full Year	H1	H2	Full Year	
The Group (excluding PCPD)	4,507	4,669	9,176	4,584	5,084	9,668	5%
PCPD	1,924	1,154	3,078	358	7,824	8,182	62%
Group Total	6,431	5,823	12,254	4,942	12,908	17,850	31%

The Group's consolidated total cost of sales for the year ended December 31, 2009 decreased by 31% from a year ago to HK\$12,254 million, primarily due to a 62% drop in PCPD's cost of sales to HK\$3,078 million on lower cost recognized for its property development projects. Gross margin improved to 51% in 2009 from 44% in 2008.

The Group's cost of sales excluding PCPD decreased by 5% to HK\$9,176 million, mainly due to the lower cost of customer premises equipment sold during the year. Core gross margin was steady at 56%.

General and Administrative Expenses

During the year ended December 31, 2009, the Group continued cost management measures appropriate for the challenging operating environment. Operating expenses such as marketing, corporate support functions and operating costs of property, plant and equipment were reduced, resulting in an overall 13% reduction in total operating costs before depreciation, amortization and restructuring costs for the year. The reduction was partially offset by a 2% increase in depreciation and amortization expenses in relation to customer acquisition costs, resulting in an overall reduction in general and administrative expenses of 10% to HK\$9,029 million.

EBITDA¹

Turnaround of the TV & Content business and productivity gains on all operational fronts contributed to a firm core EBITDA of HK\$6,718 million for the year ended December 31, 2009. Core EBITDA margin also improved to 32% in 2009 from 31% in 2008, lifted by higher cost efficiency and sound business performance.

With PCPD EBITDA at HK\$781 million due to lower property development EBITDA recognized from the Bel-Air project, consolidated EBITDA was HK\$7,499 million for the year ended December 31, 2009. Consolidated EBITDA margin also increased by 5 percentage points from a year ago to 30% in 2009.

Other Gains/(Losses), Net

Net other gains was HK\$168 million for the year ended December 31, 2009 (2008: net other losses of HK\$464 million). Net other gains in 2009 primarily comprised gains on disposal of PCPD's property development project in Beijing.

Finance Costs and Interest Income

Finance costs remained stable at HK\$1,485 million for the year ended December 31, 2009, despite a higher average debt balance during the year. The average cost of debt for the year also improved to 4.1% from 5.0% a year ago. Interest income decreased by 91% to HK\$18 million for the year ended December 31, 2009 mainly because of the low interest rates environment.

Income Tax

Income tax expenses for the year ended December 31, 2009 decreased by 18% to HK\$585 million and the Group's effective tax rate for the year ended December 31, 2009 was 25% (2008: 32%). The decrease in tax expenses and effective tax rate was mainly due to reductions in certain overseas tax provisions as the Group contained its exposure to overseas tax, and a lower net Hong Kong current income tax and deferred income tax.

The rate is higher than the statutory tax rate of 16.5%, mainly due to the fact that losses of some companies cannot be offset against profits of other companies for Hong Kong tax purposes. Excluding this factor, the Group would have an effective tax rate around the statutory tax rate of 16.5%.

Minority Interests

Minority interests of HK\$289 million primarily represented the net profit attributable to the minority shareholders of 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, 2009 increased by 18% to HK\$1,506 million (2008: HK\$1,272 million).

LIQUIDITY AND CAPITAL RESOURCES

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

The Group's gross debt⁴ increased from HK\$32,200 million as at December 31, 2008 to HK\$35,400 million as at June 30, 2009 after drawdown of certain facilities upon the Group restructuring. Since then, gross debt⁴ had been maintained at around the level of HK\$35,262 million as at December 31, 2009.

The Group's net debt⁴ was HK\$30,585 million as at June 30, 2009, compared to HK\$22,813 million as at December 31, 2008. However, because of the strong net cash inflow from operating activities of HK\$7,940 million, our net debt⁴ level improved to HK\$27,161 million as at December 31, 2009. We had a strong cash and cash equivalents of HK\$8,049 million as at December 31, 2009 (2008: HK\$9,284 million) to meet future obligations.

As at December 31, 2009, the Group had a total of HK\$27,885 million in committed banking facilities available for liquidity management, of which HK\$8,222 million remained undrawn.

The Group's gross debt⁴ to total assets was 78% as at December 31, 2009 (2008: 57%).

CREDIT RATINGS OF HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

As at December 31, 2009, Hong Kong Telecommunications (HKT) Limited, an indirect wholly-owned subsidiary of the Company, had investment grade ratings with Moody's Investors Service (Baa2) and Standard & Poor's Ratings Services (BBB).

CAPITAL EXPENDITURE⁵

Group capital expenditure for the year ended December 31, 2009 was HK\$1,668 million (2008: HK\$3,342 million). Major outlays for the year included strategic investments in quadruple-play and high-speed broadband in meeting service demands as well as enhancement of our international and mobile networks.

As a result of significant investments made in previous years, the Company's **now TV**, mobile and international networks are already operating in quality infrastructure, and the broadband network coverage is the best among all local operators. This provided greater flexibility in prioritizing our capital expenditure in 2009. Going forward, PCCW will continue to invest in its unique quadruple-play platform and network having regard to the prevailing market conditions, and using assessment criteria including internal rate of return, net present value and payback period.

HEDGING

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

In the normal course of business, the Group enters into forward contracts and other derivative contracts in order to limit its exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions, and all contracts are denominated in currencies of major industrial countries. As at December 31, 2009, all cross currency swap contracts were designated as cash flow hedges for the Group's foreign currency denominated long-term borrowings.

CHARGE ON ASSETS

As at December 31, 2009, certain assets of the Group with an aggregate carrying value of HK\$3,913 million (2008: HK\$1 million) were pledged to secure loans and banking facilities of the Group.

CONTINGENT LIABILITIES

As at December 31, HK\$ million	2009	2008
Performance guarantee	393	923
Others	34	27
	427	950

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

HUMAN RESOURCES

As at December 31, 2009, the Group had approximately 18,200 employees (June 30, 2009: 16,300). About two-thirds of these employees work in Hong Kong and the others are based mainly in mainland China. The Company has established incentive bonus schemes designed to motivate and reward employees at all levels to achieve the Company's business performance targets. Payment of bonuses is generally based on achievement of EBITDA¹ and 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 13.3 HK cents per share (2008: final dividend – nil and special dividend of HK\$1.30 per share) for the year ended December 31, 2009 subject to the approval of shareholders of the Company at the forthcoming annual general meeting. The Board did not declare an interim dividend for the six months ended June 30, 2009 (2008: 7 HK cents per share).

CLOSURE OF REGISTER OF MEMBERS

The Company's register of members will be closed from Friday, May 14, 2010 to Wednesday, May 19, 2010 (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend of 13.3 HK cents per share and determine the entitlement to attend and vote at the forthcoming annual general meeting of the Company, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, Transfer Office, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration no later than 4:30 p.m. on Thursday, May 13, 2010. Dividend warrants will be despatched to shareholders on or around Thursday, May 27, 2010.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended December 31, 2009, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

AUDIT COMMITTEE

The Company's Audit Committee has reviewed the accounting policies adopted by the Group and the audited consolidated financial statements of the Group for the year ended December 31, 2009.

CORPORATE GOVERNANCE PRACTICES

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

The Company has applied the principles and complied with all the code provisions of the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year ended December 31, 2009, except that the Chairman of the Board was unable to attend the Company’s annual general meeting which was held on June 26, 2009 (as required under Code provision E.1.2) as he had an overseas engagement that was important to the Company’s business.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the websites of the Company (www.pccw.com) and Hong Kong Exchanges and Clearing Limited (www.hkex.com.hk). The 2009 annual report will be despatched to shareholders of the Company and available on the above websites in due course.

By Order of the Board
PCCW Limited
Philana WY Poon
Group General Counsel and Company Secretary

Hong Kong, March 9, 2010

AUDITED CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2009

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

	Note(s)	2009	2008
Turnover	2	25,077	31,951
Cost of sales		(12,254)	(17,850)
General and administrative expenses		(9,029)	(10,005)
Other gains/(losses), net	3	168	(464)
Losses on property, plant and equipment		(61)	(103)
Interest income		18	197
Finance costs		(1,485)	(1,473)
Share of results of associates		61	27
Share of results of jointly controlled companies		(116)	(16)
Impairment losses reversed/(recognized) on interests in an associate and a jointly controlled company		1	(31)
Profit before income tax	2, 4	2,380	2,233
Income tax	5	(585)	(711)
Profit for the year		1,795	1,522
Attributable to:			
Equity holders of the Company		1,506	1,272
Minority interests		289	250
Profit for the year		1,795	1,522
Earnings per share	7		
Basic		22.24 cents	18.78 cents
Diluted		22.23 cents	18.77 cents

AUDITED CONSOLIDATED AND COMPANY BALANCE SHEETS

As at December 31, 2009

(In HK\$ million)

	Note	The Group		The Company	
		2009	2008	2009	2008
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment		16,300	17,092	–	–
Investment properties		3,794	3,785	–	–
Interests in leasehold land		575	593	–	–
Properties held for/under development	8	904	1,546	–	–
Goodwill		3,096	3,000	–	–
Intangible assets		1,728	1,885	–	–
Investments in subsidiaries		–	–	12,089	12,089
Interest in associates		189	674	–	–
Interest in jointly controlled companies		514	268	–	–
Held-to-maturity investments		3	5	–	–
Available-for-sale financial assets		325	244	–	–
Amounts due from related companies		–	3	–	–
Deferred income tax assets		65	48	–	–
Other non-current assets		441	392	–	–
		27,934	29,535	12,089	12,089
Current assets					
Properties under development	8	–	331	–	–
Properties for sale	8	698	2,071	–	–
Amounts due from subsidiaries		–	–	16,586	19,408
Sales proceeds held in stakeholders' accounts	9	1,271	6,994	–	–
Restricted cash	10	1,001	823	52	103
Prepayments, deposits and other current assets		2,488	1,961	9	31
Inventories		992	1,016	–	–
Amounts due from related companies		8	35	–	–
Derivative financial instruments		108	230	–	–
Trade receivables, net	11	2,418	4,317	–	–
Tax recoverable		16	8	–	–
Cash and cash equivalents		8,049	9,284	93	5,838
		17,049	27,070	16,740	25,380

AUDITED CONSOLIDATED AND COMPANY BALANCE SHEETS (CONTINUED)

As at December 31, 2009

(In HK\$ million)

	Note	The Group		The Company	
		2009	2008	2009	2008
Current liabilities					
Short-term borrowings		(246)	–	(200)	–
Trade payables	12	(1,645)	(1,700)	–	–
Accruals and other payables		(4,441)	(5,241)	(6)	(27)
Amount payable to the Government under the Cyberport Project Agreement	13	(833)	(4,981)	–	–
Mobile carrier licence fee liabilities		(85)	(76)	–	–
Amounts due to related companies		(42)	(585)	–	–
Gross amounts due to customers for contract work		–	(5)	–	–
Advances from customers		(1,768)	(2,224)	–	–
Current income tax liabilities		(767)	(1,911)	–	(37)
		(9,827)	(16,723)	(206)	(64)
Net current assets		7,222	10,347	16,534	25,316
Total assets less current liabilities		35,156	39,882	28,623	37,405
Non-current liabilities					
Long-term borrowings		(34,667)	(31,745)	–	–
Deferred income tax liabilities		(1,276)	(714)	–	–
Deferred income		(651)	(670)	–	–
Defined benefit liability		(5)	(7)	–	–
Amount payable to the Government under the Cyberport Project Agreement	13	–	(1,195)	–	–
Mobile carrier licence fee liabilities		(480)	(512)	–	–
Other long-term liabilities		(102)	(139)	–	–
		(37,181)	(34,982)	–	–
Net (liabilities)/assets		(2,025)	4,900	28,623	37,405
CAPITAL AND RESERVES					
Share capital		1,693	1,693	1,693	1,693
(Deficit)/Reserves		(7,138)	42	26,930	35,712
Equity attributable to equity holders of the Company		(5,445)	1,735	28,623	37,405
Minority interests		3,420	3,165	–	–
Total equity		(2,025)	4,900	28,623	37,405

NOTES

1. BASIS OF PREPARATION AND CRITICAL ACCOUNTING ESTIMATES

The accounting policies and methods of computation used in preparing these audited consolidated financial statements are consistent with those followed in preparing the annual financial statements of PCCW Limited (the “Company”) and its subsidiaries (collectively the “Group”) for the year ended December 31, 2008, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”), which are relevant to the Group’s operation and are effective for accounting periods beginning on or after January 1, 2009. The HKFRSs include 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. The adoption of these new and revised HKFRSs has not led to any significant changes in the accounting policies applied in these financial statements, and has no material effect on the Group’s results and financial position for the current or prior accounting periods reflected in these financial statements. They did however give rise to additional disclosures as stated below:

- Amendment to HKFRS 7, ‘Financial Instruments: Disclosures’. The amendment increases the disclosure requirements about fair value measurement and amends the disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosures about financial instruments and requires some specific quantitative disclosures for those instruments classified in the lowest level in the hierarchy. These disclosures will help improve comparability between entities about the effects of fair value measurements. In addition, the amendment clarifies and enhances the existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities. It also requires a maturity analysis for financial assets where the information is needed to understand the nature and context of liquidity risk. As the change in accounting standard only results in additional disclosures, there is no impact on earnings per share.
- HKAS 1 (revised), ‘Presentation of financial statements’ – effective January 1, 2009. The revised standard prohibits the presentation of items of income and expenses (that is, ‘non-owner changes in equity’) in the statement of changes in equity, requiring ‘non-owner changes in equity’ to be presented separately from owner changes in equity. All ‘non-owner changes in equity’ are required to be shown in a performance statement. Entities can choose whether to present one performance statement (statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group elected to present two statements: a consolidated income statement and a consolidated statement of comprehensive income. Comparative information has been re-presented so that it is also in conformity with the revised standard. Since the change in accounting standard only impacts presentation aspects of the financial statements, there is no impact on earnings per share.

1. BASIS OF PREPARATION AND CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

The following new HKFRSs are mandatory for the first time for the financial year beginning January 1, 2009, but have no material effect on the Group's results and financial position for the current and prior accounting periods.

- HKAS 23 (revised), 'Borrowing Costs'.
- HKAS 32 (amendment), 'Financial Instruments: Presentation'.
- HKAS 39 (amendment), 'Financial Instruments: Recognition and Measurement'.
- HKAS 40 (amendment), 'Investment Property'.
- HKFRS 2 (amendment), 'Share-based Payment'.
- HKFRS 8, 'Operating Segments'.
- HK(IFRIC)-Int 9 (amendment), 'Reassessment of Embedded Derivatives' and HKAS 39 (amendment), 'Financial Instruments: Recognition and Measurement'.
- HK(IFRIC)-Int 13, 'Customer Loyalty Programmes'.
- HK(IFRIC)-Int 15, 'Agreements for the Construction of Real Estate'.
- Improvements to HKFRSs (2008).

HKFRS 8 Amendment, 'Operating Segments' was early adopted by the Group in 2009 and applied prospectively from January 1, 2009. The amendment clarifies that an entity is required to disclose a measure of segment assets only if that measure is regularly reported to the chief operating decision-maker. As the Group does not report segment assets to the chief operating decision-maker, no segment assets were disclosed.

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. 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.

1. BASIS OF PREPARATION AND CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

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

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

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

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

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

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

iii. Revenue recognition

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

During the year, the Group re-assessed the expected customer relationship period. As a result of this re-assessment, the expected customer relationship period has been shortened. This change in accounting estimate has been accounted for prospectively from June 30, 2009. As a result, the Group's profit for the year increased and its net liabilities as at December 31, 2009 decreased by HK\$57 million.

1. BASIS OF PREPARATION AND CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

iii. Revenue recognition *(continued)*

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

iv. Sales recognition on properties sold

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

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

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

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

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

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

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

The estimated cost of developing the Cyberport project, including construction costs and the amounts paid and payable to the Government, is allocated to cost of properties sold on a systematic basis over the life of the project using a relative value approach. This approach considers the value of development costs attributable to phases for which revenue has been recognized to date relative to the total expected value of development costs for the development as a whole. The revision of estimates of these relative values during the year ended December 31, 2009 has resulted in the costs of properties sold recorded in the year ended December 31, 2009 being increased by HK\$59 million.

1. BASIS OF PREPARATION AND CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

- v. **Amount payable to the Government under the Cyberport Project Agreement** (*continued*)
Under the Cyberport Project Agreement, a Development Maintenance Account (the “DMA Account”) is established for the provision of funds (the “DMA Amount”) for the upkeep and maintenance of certain facilities commonly available to both tenants and visitors at the commercial portion of the Cyberport project. In 2004, the DMA Amount was provisionally assessed at HK\$500 million which had been funded jointly by the Government and the Group to the DMA Account.

According to the Cyberport Project Agreement, Hong Kong Cyberport Management Company Limited (“HKCMCL”), the entity established by the Government, shall calculate the final assessment of the DMA Amount before the end of December 2009. Since the end of the year under review, the Group has entered into discussion with HKCMCL, of which the outcome is still uncertain. The Group has sought legal and other professional advice on this subject and in view of such advice, the management's assessment is that the provisional assessment of HK\$500 million would be adequate for the purpose of the final assessment of the DMA Amount, and the liability to contribute additional funds to the DMA Account by the Group is remote. Accordingly, no additional provision for the DMA Amount is made as at December 31, 2009. Since the final outcome of the discussion with HKCMCL is uncertain, should the final assessment figure of the DMA Amount become different from the HK\$500 million which management has estimated, provision will have to be made accordingly.

vi. **Deferred income tax**

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

vii. **Current income tax**

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

1. BASIS OF PREPARATION AND CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

viii. Recognition of intangible asset – Mobile carrier licence

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

ix. Estimated valuation of investment properties

The best evidence of fair value is current prices in an active market for similar leases and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair values estimates. In making its estimates, the Group considers both (i) information from the valuations of investment properties performed by external professional valuers by using the open market value approach and (ii) other principal assumptions including the receipt of contractual rentals, expected future market rentals and discount rates to determine the fair value of the investment properties. Had the Group used different future market rentals, discount rates and other assumptions, the fair value of the investment properties would be different and thus caused impact to the consolidated income statement. As at December 31, 2009, the fair value of the investment properties was HK\$3,794 million.

x. Estimated property holding cost recoverable from the Government

The Group has commenced appeals proceedings for rates and government rents for years of assessment between 2000 and 2009. The Group has assessed and determined a prudent estimated amount recoverable from the Government after seeking legal and other professional advice and recorded a corresponding reduction in operating costs of property, plant and equipment during the year.

2. SEGMENT INFORMATION

The chief operating decision-maker (the “CODM”) has been identified as the Group’s senior executive management. The CODM reviews the Group’s internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

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

- Telecommunications Services (“TSS”) is the leading provider of telecommunications products and services including local telephony, broadband access services, local and international data, international direct dial, sales of equipment, technical maintenance and subcontracting services and teleservices businesses.
- TV & Content includes interactive pay-TV service, Internet portal multimedia entertainment platform and the Group’s directories operations in Hong Kong and mainland China.
- Mobile includes the Group’s mobile telecommunications businesses in Hong Kong.
- PCCW Solutions offers Information and Communications Technologies services and solutions in Hong Kong and mainland China.
- Pacific Century Premium Developments Limited (“PCPD”) covers the Group’s property portfolio in Hong Kong and mainland China, including the Cyberport development in Hong Kong, and elsewhere in Asia.
- Other Businesses include the Group’s wireless broadband business in the United Kingdom and all corporate support functions.

The CODM assesses the performance of the operating segments based on a measure of adjusted earnings before interest, tax, depreciation and amortization (“EBITDA”). The EBITDA represents earnings before interest income, finance costs, income tax, depreciation of property, plant and equipment, amortization of land lease premium and intangible assets, gain/loss on disposal of property, plant and equipment, investment properties and interests in leasehold land, net other gains/losses, losses on property, plant and equipment, restructuring costs, impairment losses on interests in associates and jointly controlled companies and the Group’s share of results of associates and jointly controlled companies.

Segment revenue, expense and segment performance include transactions between segments. Inter-segment pricing is based on similar terms as those available to other external parties for similar services. The revenue from external parties reported to the CODM is measured in a manner consistent with that in the consolidated income statement.

2. SEGMENT INFORMATION (CONTINUED)

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

For the year ended December 31, 2009

(In HK\$ million)

	TSS	TV & Content	Mobile	PCCW Solutions	PCPD	Other Businesses	Eliminations	Consolidated
REVENUE								
Total revenue	16,292	2,350	1,670	1,844	4,222	61	(1,362)	25,077
RESULTS								
EBITDA	7,050	4	265	209	781	(810)	—	7,499

For the year ended December 31, 2008

(In HK\$ million)

	TSS	TV & Content	Mobile	PCCW Solutions	PCPD	Other Businesses	Eliminations	Consolidated
REVENUE								
Total revenue	17,465	2,239	1,744	1,866	9,943	86	(1,392)	31,951
RESULTS								
EBITDA	7,456	(83)	242	195	1,268	(1,096)	—	7,982

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

In HK\$ million	2009	2008
Total segment EBITDA	7,499	7,982
Loss on disposal of property, plant and equipment	—	(19)
Depreciation and amortization	(3,780)	(3,696)
Other gains/(losses), net	168	(464)
Losses on property, plant and equipment	(61)	(103)
Interest income	18	197
Finance costs	(1,485)	(1,473)
Share of results of associates and jointly controlled companies	(55)	11
Impairment losses reversed/(recognized) on interests in an associate and a jointly controlled company	1	(31)
Restructuring costs reversed/(recognized)	75	(171)
Profit before income tax	2,380	2,233

2. SEGMENT INFORMATION (CONTINUED)

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	
	2009	2008
Hong Kong (place of domicile)	22,136	29,153
Mainland China (excluding Hong Kong) and Taiwan	1,656	1,734
Others	1,285	1,064
	25,077	31,951

3. OTHER GAINS/(LOSSES), NET

In HK\$ million	2009	2008
Net realized gains on disposals of available-for-sale financial assets	–	60
Net realized gains on disposals of subsidiaries	232	–
Impairment loss on goodwill	(96)	(12)
Provision for impairment of investments	–	(161)
Net realized and unrealized fair value gains on derivative financial instruments	–	28
Fair value gains/(losses) on investment properties	1	(396)
Dividend income	4	2
Net gain on cash flow hedging instruments transferred from equity	42	30
Others	(15)	(15)
	168	(464)

4. PROFIT BEFORE INCOME TAX

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

In HK\$ million	2009	2008
Crediting:		
Revenue from properties sold	3,855	9,551
Dividend income from listed investments	4	–
Dividend income from unlisted investments	–	2
Charging:		
Cost of inventories sold	1,932	2,494
Cost of properties sold	2,917	8,070
Cost of sales, excluding inventories and properties sold	7,405	7,286
Depreciation of property, plant and equipment	2,677	2,824
Operating costs of property, plant and equipment	334	556
Amortization of intangible assets	1,081	841
Amortization of land lease premium	22	31
Loss on disposal of property, plant and equipment	–	19
Interest on borrowings	1,417	1,400
Staff costs	2,469	2,687

5. INCOME TAX

In HK\$ million	2009	2008
Hong Kong profits tax	64	1,831
Overseas tax	(29)	168
Movement of deferred income tax	550	(1,288)
	585	711

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 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 prevailing in the respective jurisdictions.

6. DIVIDENDS

In HK\$ million	2009	2008
Interim dividend declared and paid in respect of current year - nil (2008: 7 HK cents per ordinary share)	–	474
Final dividend declared in respect of previous financial year, approved and paid during the year - nil (2008: 13.5 HK cents per ordinary share)	–	915
Special dividend declared and paid during the year of 130 HK cents per ordinary share (2008: nil)	8,804	–
	8,804	1,389
Final dividend proposed after the balance sheet date of 13.3 HK cents per ordinary share (2008: nil)	901	–
Special dividend declared after the balance sheet date - nil (2008: 130 HK cents per ordinary share)	–	8,804
	901	8,804

The final dividend proposed after the balance sheet date for 2009 has not been recognized as a liability as at the balance sheet date.

7. EARNINGS PER SHARE

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

	2009	2008
Earnings (in HK\$ million)		
Earnings for the purpose of basic and diluted earnings per share	1,506	1,272
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	6,772,294,654	6,772,942,656
Effect of shares purchased from the market under the Company's share award schemes	2,519,109	2,519,109
Weighted average number of ordinary shares for the purpose of diluted earnings per share	6,774,813,763	6,775,461,765

8. PROPERTIES HELD FOR/UNDER DEVELOPMENT/FOR SALE

In HK\$ million	2009	2008
Properties under development (<i>note a</i>)	356	1,017
Properties held for development (<i>note b</i>)	548	860
	904	1,877
Less: Properties held for/under development classified as non-current assets	(904)	(1,546)
Properties under development classified as current assets	–	331
Properties for sale classified as current assets (<i>note a</i>)	698	2,071
	698	2,402

- a. Pursuant to the Cyberport Project Agreement, the Group was granted an exclusive right and obligation to design, develop, construct and market the Cyberport project at Telegraph Bay on the Hong Kong Island. The Cyberport project consists of commercial and residential portions. The completed commercial portion was transferred to the Government at no consideration. The associated costs incurred have formed part of the development costs of the residential portion. Pre-sales of the residential portion of the Cyberport project commenced in February 2003. The construction of residential portion of the Cyberport project was completed in November 2008.
- b. Properties held for development represents freehold land in Japan and Thailand, which the Group intends for future development projects.

9. 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.

10. RESTRICTED CASH

Pursuant to the Cyberport Project Agreement, the Group has a restricted cash balance of approximately HK\$936 million as at December 31, 2009 (2008: HK\$720 million) held in specific bank accounts. The uses of the funds are specified in the Cyberport Project Agreement.

In addition, the Company has set aside a total cash balance of approximately HK\$52 million as at December 31, 2009 (2008: HK\$103 million) in connection with the release of undertakings in relation to the capital reduction of the Company.

As at December 31, 2009, the remaining balance of HK\$13 million (2008: nil) represented amount held on behalf of property owners whose properties are managed by the Group. The uses of the funds are specified in the agreements between the owners and the Group.

11. TRADE RECEIVABLES, NET

An aging analysis of trade receivables is set out below:

In HK\$ million	2009	2008
0 – 30 days	1,534	3,122
31 – 60 days	321	372
61 – 90 days	174	162
91 – 120 days	108	101
Over 120 days	583	887
	2,720	4,644
Less: Impairment loss for doubtful debts	(302)	(327)
	2,418	4,317

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.

12. TRADE PAYABLES

An aging analysis of trade payables is set out below:

In HK\$ million	2009	2008
0 – 30 days	927	1,094
31 – 60 days	111	83
61 – 90 days	44	55
91 – 120 days	40	26
Over 120 days	523	442
	1,645	1,700

13. AMOUNT PAYABLE TO THE GOVERNMENT UNDER THE CYBERPORT PROJECT AGREEMENT

In HK\$ million	2009		
	Government share under the Cyberport Project Agreement (Note a)	Others	Total
Beginning of year	6,149	27	6,176
Addition to amount payable	996	3	999
Settlement during the year	(6,342)	–	(6,342)
End of year, classified as current liabilities	803	30	833

- a.** Pursuant to the Cyberport Project Agreement, the Government shall be entitled to receive payments of approximately 65% of the surplus cash flow arising from the sales of the residential portion of the Cyberport project, net of certain allowable costs incurred on the project, as stipulated under certain terms and conditions of the Cyberport Project Agreement. The amount payable to the Government is included in properties under development as the amount is considered as part of the development costs of the Cyberport project. The amount payable is based on estimated sales proceeds of the residential portion of the Cyberport project and the estimated development costs of the Cyberport project. The estimated amount to be paid to the Government during the forthcoming year is classified as current liabilities.
- b.** Under the Cyberport Project Agreement, the provision of the DMA Amount (note 1(v)) for the upkeep and maintenance of certain facilities commonly available to both tenants and visitors at the commercial portion of the Cyberport project was provisionally assessed at HK\$500 million and forms part of certain allowable costs incurred on the project, as stipulated under the terms and conditions of the Cyberport Project Agreement.

The Directors as at the date of this announcement are as follows:

Executive Directors:

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

Non-Executive Directors:

Sir David Ford, KBE, LVO; Mr. Lu Yimin; Mr. Zuo Xunsheng (Deputy Chairman) and Mr. Li Fushen

Independent Non-Executive Directors:

Professor Chang Hsin-kang, FREng, GBS, JP; Dr. The Hon. Sir David Li Kwok Po, GBM, GBS, OBE, JP; Sir Roger Lobo, CBE, LLD, JP; Mr. Aman Mehta; The Hon. Raymond George Hardenbergh Seitz and Mr. Tse Sze Wing, Edmund, GBS

Forward-Looking Statements

This announcement may contain certain 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 relating to the business, industry and markets in which PCCW operates.