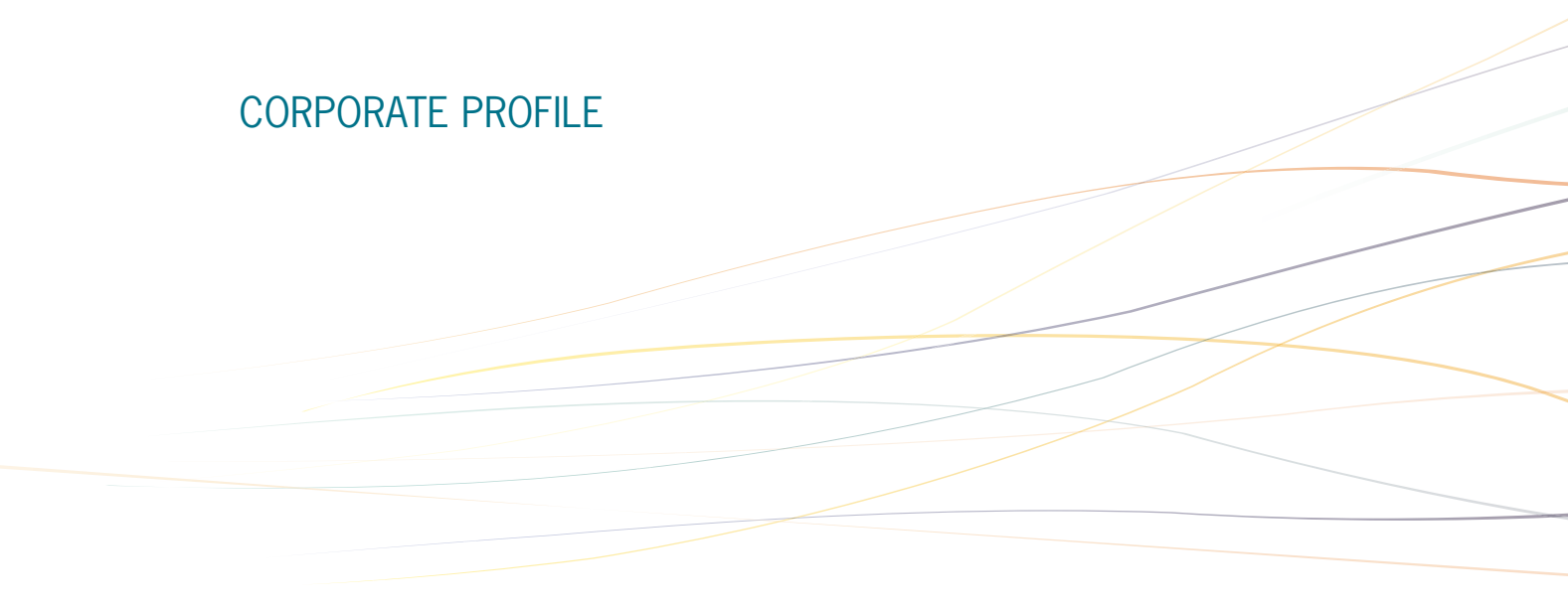






## CORPORATE PROFILE



PCCW Limited (PCCW or the Company) is the largest and most comprehensive communications operator in Hong Kong and a world-class player in Information & Communications Technologies (ICT).

As provider of Hong Kong's first quadruple-play experience, PCCW offers a range of innovative media content and services across four platforms – fixed-line, broadband Internet, TV and mobile.

Internationally, the Company meets the sophisticated needs of enterprises and carriers, while supporting network operators with leading-edge technical services and handling large-scale IT outsourcing projects for public and private sector organizations.

Employing a total of approximately 15,800 staff, PCCW maintains a presence in Europe, the Middle East, Africa, the Americas and mainland China, as well as Hong Kong and other parts of Asia.

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

# MILESTONES 2007

## JANUARY

PCCW announces a move to transform Hong Kong into a "Wi-Fi city" by increasing the number of hotspots where users can access the Internet without wires from 400 to more than 4,000 by early 2008.

## FEBRUARY

NOW TV wins media rights to broadcast Italy's premier soccer event – the Serie A Championship – during the 2007/2008, 2008/2009 and 2009/2010 seasons.

HBO On Demand launches as part of the NOW Select on-demand service.

PCCW Solutions clinches a HK\$134 million, seven-year contract with a major healthcare organization in Hong Kong to provide data center hosting and related services.

## MARCH

PCCW's annual financial results show that consolidated revenue for 2006 increased 14% to HK\$25,637m, yielding a profit of HK\$1,632m and a profit attributable to equity holders of HK\$1,252m. Basic earnings per share were 18.59 HK cents and the Board recommended a final dividend of 12 HK cents per share.

NOW SPORTS 1 goes live as the first of a suite of sports channels produced in-house to broadcast content including Barclays Premier League coverage and other world-class sports events.

Positioned as an exclusively free service to loyal PCCW customers, **snaapl** launches as the first in Hong Kong to enable sharing and viewing of photographs and video clips via a choice of delivery platforms.

The SUNDAY 2G service becomes part of the PCCW mobile brand, as a project begins to transform all SUNDAY retail outlets into PCCW shops.

PCCW Solutions is awarded an applications development outsourcing contract to develop and deploy a Maintenance Management Information System for MTR Corporation Limited railway projects in mainland China.

Eurosport and Eurosportnews join NOW SPORTS channels as part of NOW TV's Mega Sports Pack. Other channels joining the NOW TV lineup include Star One, Dim Sum TV and Baby TV, as well as Nat Geo Video on Demand.

## APRIL

PCCW mobile announces launch of NOW SPORTS on mobile, enabling subscribers to enjoy handset viewing of world-class events while on the move. Programming includes football action from the Barclays Premier League (2007/2010), EURO 2008, Italian Serie A (2007/2010) and J. League, plus other sports events such as tennis (WTA and ATP Tours), volleyball (FIVB World Grand Prix, FIVB World Cup) and badminton (BWF Super Series).

Factual and entertainment channel FOXCRIME joins the NOW TV lineup, along with the FX channel.

PCCW's Advertising & Interactive Services (A&IS) business unit launches the Dial-A-Dinner onscreen meal-order and home-delivery service on NOW shop channel 501 in partnership with Hong Kong's largest gourmet restaurant food-delivery brand.

Gold Authorised Reseller Status for selling online solutions is again awarded to A&IS by Yahoo! Hong Kong, as the Yellow Pages suite of solutions expands to include Yahoo! Exclusive Keyword and Yahoo! WHERE services exclusively in Hong Kong. These enable advertisers to be seen first in results of Internet searches by prospective buyers.

The HKFA/NOW TV Hong Kong Top Footballer Awards scheme is launched to recognize contributions made by local coaches and soccer players.

Alex Arena is appointed Group Managing Director of PCCW Limited (see biography on page 36).

## MAY

Leading multi-protocol label switching for virtual private networks (MPLS VPN) provider, PCCW Global, unveils a partnership arrangement with Bharti Airtel to extend connectivity into India. Bharti Airtel is the only service provider with an all-India footprint. PCCW Global also announces expanded coverage to Middle Eastern markets, such as Bahrain, Kuwait, Qatar, Saudi Arabia and the United Arab Emirates, plus Turkey.

During a live broadcasting event between Hong Kong and Beijing, PCCW Global and China Network Communications Group Corporation (China Netcom) sign a letter of intent relating to the deployment of high-definition TV technology to broadcast coverage of the Equestrian Beijing 2008 Olympics from Hong Kong for the world's media.

## JUNE

The History Channel and Crime & Investigation Network channel debut in Hong Kong on NOW TV.

The versatile PCCW eye home multimedia service launches to deliver unprecedented convenience and enjoyment into Hong Kong households. Complete with 4.3-inch screen and stereo speakers, the PCCW eye device is positioned as every family member's friend by offering infotainment – such as NOW TV news and sports and the MOOV digital music library – and practical interactive services in a menu-driven format. Features include fun learning for kids, home cooking recipes and practical tips, radio programs, Hong Kong Jockey Club football, horse-racing and Mark Six information, stock quotes and PCCW inquiry and payment services.



The versatile PCCW eye home multimedia service launches to deliver unprecedented convenience and enjoyment into Hong Kong households.

A revolution in office communications begins with the launch of ONE communications, Asia's first fixed/mobile integrated communications solution enabling everyday business to be conducted seamlessly and with hassle-free convenience.

PCCW Solutions wins a 10-year contract worth HK\$125m from the Hong Kong Police Force to design, build and maintain the Versatile Maritime Policing Response System to help keep Hong Kong's busy seaways and port waters secure.

PCCW Global becomes a member of the SAMENA Telecommunications Council, a multi-continent consortium with members in South Asia, the Middle East and North Africa. Membership will help PCCW Global serve customers in locations such as Bahrain, Egypt, Jordan, Kuwait, Pakistan, Saudi Arabia, the United Arab Emirates and Turkey.

PCCW Global and China Netcom unveil the first high-end International Ethernet Private Line (IEPL) service between Hong Kong and Beijing. IEPL is an ideal cross-border connectivity solution for high volumes of traffic and mission critical applications.

PCCW Solutions takes part in a ceremony to launch the Hong Kong Software Outsourcing Alliance as one of 17 founding members. The alliance's purpose is to explore opportunities in the global software outsourcing business and respond to mainland China's "eleventh five-year plan", which identifies software outsourcing as a strategic element in the development of the nation's IT industry.

PCCW mobile launches the PUSH eMail solution to enable business customers to extend standard office communications to mobile handsets anytime, anywhere. All email is "pushed" automatically to user devices in real time.

## JULY

The Panda Channel from PCCW and Ocean Park goes on air to deliver the live antics of young pandas LeLe and YingYing, as well as all-time favorites AnAn and JiaJia, to their many fans via PCCW's quadruple-play delivery platforms – NOW TV, NETVIGATOR broadband, PCCW eye and PCCW mobile.

PCCW launches Hong Kong's first multi-functional rechargeable SIM facility – the All-in-1 Communications SIM Card – enabling tourists and business visitors to enjoy an array of services including mobile, Wi-Fi, IDD and free access to information from the Hong Kong Tourism Board.

PCCW heralds launch of high-definition (HD) programming on NOW TV. Starting August, customers can pre-register for NOW TV's HD service to enjoy Barclays Premier League action and other major sports events in spectacular style. VOOM HD joins the NOW TV lineup to offer high-definition programs on music, the arts, travel and lifestyles.

PCCW Solutions wins a two-year contract to design, implement and integrate a Point of Sale/Customer Relations Management system for an international luxury brands group in Asia Pacific.

PCCW Global expands provision of Internet Protocol (IP) services to more than 740 cities in 70 countries by rolling out more MPLS VPN network Points of Presence (PoPs) in locations including Sydney, Seoul, Singapore, Kuala Lumpur, Kuwait City and McAllen, Texas in the US.



**NOW TV introduces an exciting new viewing experience for Hong Kong with the launch of a high-definition television service.**

The Barclays Premier League (BPL) in partnership with the Hong Kong Football Association stage the Barclays Asia Trophy at the 40,000-capacity Hong Kong Stadium, with NOW TV screening all matches exclusively for Hong Kong viewers and providing coverage for broadcasters around the world. Billed as the BPL 2007/2008 season curtain-raiser, the event features Liverpool, Portsmouth, Fulham and the winner of the Hong Kong FA Cup.

## AUGUST

PCCW's interim financial results show an increase in core revenue of 7% to HK\$9,507m, a decrease in consolidated revenue including PCPD of 18% to HK\$11,607m (reflecting lower recognition of property development revenue), an increase in core EBITDA of 4% to HK\$3,068m and a drop in consolidated EBITDA including PCPD of 1% to HK\$3,609m. Profit attributable to equity holders increased 3% to HK\$822m, while basic earnings per share stood at 12.16 HK cents and an interim dividend of 6.5 HK cents per share was declared by the Board.

Hang Seng Bank and PCCW's A&IS business unit unveil Hong Kong's first TV securities trading platform – the Hang Seng TV Securities Trading Service – on NOW TV. Hang Seng Personal e-Banking customers with securities accounts are able to place instructions to trade local securities via NOW Business News Channel and NOW shop using NOW TV's remote control device.

PCCW takes part in a ceremony to celebrate the early conclusion of a project to build Asia's largest IP-enabled network for securities and derivatives markets. Built for Hong Kong Exchanges and Clearing Limited and known as SDNet, the new network provides a foundation for the long-term growth of Hong Kong's financial industry.

NETVIGATOR Everywhere launches, providing a unique wireless broadband solution that automatically detects and selects the best connectivity between PCCW's Wi-Fi, High-Speed Downlink Packet Access (HSDPA) and 3G capabilities, making PCCW the first in Hong Kong to integrate Wi-Fi and mobile networks.



**NETVIGATOR Everywhere launches, providing customers on the move with a unique wireless broadband solution.**

PCCW mobile announces launch of a NOW SPORTS service to deliver exclusive live Barclays Premier League action from NOW TV to handsets, using H.264 QVGA 320x240-pixel video streaming technology to produce a revolutionary high-quality viewing experience.

PCCW Global announces a memorandum of understanding with Malaysian ICT company Danawa Resources Sdn Bhd to explore fiber link business opportunities in southeast Asia and meet the international connectivity needs of enterprise, government and other organizations.

CASCADE adds Sri Lanka to a growing list of countries where PCCW's technical services arm has enabled broadband operators to launch IPTV services.

Coverage of the first in a series of MOOV Live concerts is simulcast via PCCW's broadband and 3G mobile networks. The MOOV Live concept is to stage local stars performing pre-release album material exclusively for PCCW customers, who are also able to enjoy unique interactive features such as display of lyrics and production notes.

## SEPTEMBER

A joint effort involving the International Projects and PCCW Global business units produces a live demo of IPTV capabilities in Kuwait for the

nation's Minister of Communications. A half-circuit to the Arabian Gulf state is provided in conjunction with PCCW Global's Kuwait-based network-to-network interface partner.

## OCTOBER

PCCW Global and Telecom New Zealand International sign an agreement on IP-network interconnection, strengthening coverage for both carriers in the Asia Pacific region.

Produced in-house, NOW TV's 24-hour local Cantonese news service, NOW NEWS Channel, goes on air to provide round-the-clock, up-to-the-minute, local, mainland China and overseas news and views.

The A&IS business unit enables NOW TV customers to search for products and services by interactive means on YP channel 502 via popular categories such as Property, Home Services and Pets.

A suite of BBC channels, including BBC Knowledge, BBC Lifestyle and CBeebies are added to the NOW TV lineup.

## NOVEMBER

PCCW announces PCCW 1000M+, a new concept that packages the extraordinary capabilities of NETVIGATOR Fiber Direct optical fiber connectivity and wireless broadband services with unrivalled coverage. After 25 years of installing enough optical fiber to circle the planet 26 times, PCCW is able to serve two-thirds of Hong Kong's households with new 1000M and 100M packages. This first-in-market broadband offer includes an option for NOW TV viewers to enjoy high-definition TV.

## DECEMBER

National Geographic Channels International and PCCW announce launch of Hong Kong's first high-definition, round-the-clock documentary channel – National Geographic Channel HD – exclusively on NOW TV.

European football luminary and UEFA President Michel Platini joins PCCW to start the countdown to NOW TV's exclusive live coverage of all 31 UEFA EURO 2008 matches starting June 2008.



**Countdown begins to NOW TV's exclusive full-tournament live coverage of UEFA EURO 2008.**

## A RECORD YEAR OF RECOGNITION



| Recognition                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Team responsible                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Scheme organizer                                                                                                                                                     |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>8th Annual Hong Kong Call Centre Association Awards</b><br>Grand Award<br>Inbound Contact Centre of the Year (Outsourced) – Gold Award<br>Outbound Contact Centre of the Year (Outsourced) – Gold Award<br>Inbound Contact Centre of the Year (Offshore) – Silver Award<br>Outbound Contact Centre of the Year (In-house) over 50 seats – Silver Award<br>Inbound Contact Centre of the Year (In-shore) over 50 seats – Bronze Award<br>Inbound Contact Centre of the Year (In-shore) under 50 seats – Certificate of Merit<br>Inbound Contact Centre Professional of the Year – Gold Award<br>Inbound Contact Centre Supervisor of the Year – Gold Award<br>Outbound Contact Centre Professional of the Year – Gold Award<br>Outbound Contact Centre Supervisor of the Year – Gold Award<br>Outbound Contact Centre Team Leader of the Year – Gold Award<br>Outbound Contact Centre Agent of the Year – Gold Award<br>Inbound Contact Centre Manager of the Year – Silver Award<br>Inbound Contact Centre Professional of the Year – Silver Award<br>Inbound Contact Centre Agent of the Year – Silver Award<br>Outbound Contact Centre Manager of the Year – Silver Award<br>Outbound Contact Centre Team Leader of the Year – Silver Award<br>Inbound Contact Centre Manager of the Year – Bronze Award<br>Inbound Contact Centre Team Leader of the Year – Bronze Award<br>Outbound Contact Centre Professional of the Year – Bronze Award<br>Outbound Contact Centre Agent of the Year – Bronze Award<br>Inbound Contact Centre Team Leader of the Year – Certificate of Merit | PCCW<br>PCCW Teleservices<br>PCCW Teleservices<br>PCCW Teleservices<br>Consumer Group<br>Consumer Group<br>Consumer Group<br>Consumer Group staff<br>Consumer Group staff<br>PCCW Teleservices staff<br>Consumer Group staff<br>Consumer Group staff<br>Consumer Group staff<br>Consumer Group staff<br>PCCW Teleservices staff<br>Consumer Group staff<br>PCCW Teleservices staff<br>Consumer Group staff<br>Consumer Group staff<br>Consumer Group staff<br>PCCW Teleservices staff<br>Consumer Group staff | Hong Kong Call Centre Association                                                                                                                                    |
| <b>13th Annual Most Popular TV Commercial Awards</b><br>Best TVC Among Youth                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | MOOV on mobile                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Hong Kong Advertisers Association                                                                                                                                    |
| <b>Asia Mobile Awards 2007</b><br>Best Mobile Music Service                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | MOOV on mobile                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | GSM Association                                                                                                                                                      |
| <b>Asia Pacific Carrier Ethernet Service Provider Awards</b><br>Services Innovation Award                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Commercial Group                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Metro Ethernet Forum                                                                                                                                                 |
| <b>2007 Asia Pacific Customer Service Recognition of Excellence</b><br>Asia Pacific Customer Services Industries Award – Telecommunication<br>Asia Pacific Customer Service Centre Award<br>Asia Pacific Outsource Call Centre Award<br>Asia Pacific Customer Service Manager Merit Award                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Consumer Group<br>PCCW Teleservices<br>PCCW Teleservices<br>PCCW Teleservices staff                                                                                                                                                                                                                                                                                                                                                                                                                           | Asia Customer Service Association                                                                                                                                    |
| <b>Asia Pacific ICT Alliance (APICTA) Awards 2007</b><br>Winner of Media and Entertainment Award                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | PCCW eye                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | APICTA International                                                                                                                                                 |
| <b>Best China Call Center in 2007 (Outsourcing)</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | PCCW Teleservices                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Call Center Occupational Standards Committee of the Ministry of Information Industry, China Call-Center & CRM Association and Customer Care & Management World Group |
| <b>Best China Customer Service Centre Award 2006-2007</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | PCCW Teleservices                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | China Information Industry Association                                                                                                                               |
| <b>Best of the Best Award (Internet Service Provider)</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | NETVIGATOR                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Hi-Tech Weekly                                                                                                                                                       |
| <b>Best IT Outsourcing Award</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | PCCW Solutions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 21st Century Business Herald                                                                                                                                         |
| <b>Best ITO/BPO Award</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | PCCW Solutions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | China Information World                                                                                                                                              |
| <b>Best of I.T. Award 2007</b><br>Best Broadband Service Provider Grand Award<br>The Universities and College Students' Choice Award                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | NETVIGATOR<br>NETVIGATOR                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | PC Market                                                                                                                                                            |
| <b>Best-in-Class Recognition</b><br>Customer Satisfaction Management (Commercial Market)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | CASCADE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Asia Pacific Customer Service Consortium                                                                                                                             |
| <b>8th Capital Outstanding Enterprise Awards</b><br>Best Fixed-line Service Company                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | PCCW                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | CAPITAL                                                                                                                                                              |
| <b>Caring Company Scheme</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | PCCW                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Hong Kong Council of Social Service                                                                                                                                  |
| <b>2007 China Call Center Ten Years Achievement Award</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | PCCW Teleservices                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | China CRM Committee, China Federation of IT Promotion and Customer Contact Centre Standard Committee                                                                 |
| <b>2007 China's Best Contact Center &amp; CRM Awards</b><br>2007 China's Best Outsourced Contact Center Award<br>2007 China's Best CRM Solution Award                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | PCCW Teleservices<br>PCCW Teleservices                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | China CRM Committee                                                                                                                                                  |
| <b>Community Chest Award of Distinction 2006/2007</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | PCCW                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | The Community Chest of Hong Kong                                                                                                                                     |

|                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                  |                                                                                                                                                                                                                           |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Computerworld Hong Kong Awards</b><br>Best Data and Telecom Services Provider Award<br>Best Business Internet Service Provider Award<br>Managed Security Services Award<br>Managed Services Award<br>IT Outsourcing Award                                                                                                                                                                                                          | Commercial Group<br>NETVIGATOR<br>Commercial Group<br>Commercial Group<br>PCCW Solutions         | Computerworld Hong Kong                                                                                                                                                                                                   |
| <b>Customer Service Excellence Award 2007</b><br>Grand Award – Silver Award<br>Counter Service – Gold Award<br>Contact Centre Service – Bronze Award                                                                                                                                                                                                                                                                                  | PCCW<br>PCCW shops/Connect Zone<br>Consumer Group staff                                          | Hong Kong Association for Customer Service Excellence                                                                                                                                                                     |
| <b>39th Distinguished Salesperson Award Programme</b><br>4 x Distinguished Salesperson Award<br>3 x Outstanding Young Salesperson Award                                                                                                                                                                                                                                                                                               | Commercial Group and A&IS staff<br>Commercial Group and A&IS staff                               | Hong Kong Management Association                                                                                                                                                                                          |
| <b>Excellence in Training 2007</b>                                                                                                                                                                                                                                                                                                                                                                                                    | Commercial Group/Training & Development                                                          | Hong Kong Management Association                                                                                                                                                                                          |
| <b>Global Telecoms Business Innovation Awards 2007</b><br>TV Service Innovation Mobile TV Winner                                                                                                                                                                                                                                                                                                                                      | PCCW Technology Strategy & Development                                                           | Global Telecoms Business Magazine                                                                                                                                                                                         |
| <b>Hong Kong ICT Awards 2007</b><br><br>2007 Hong Kong ICT Award of the Year<br>Best Ubiquitous Networking Grand Award<br>Best Ubiquitous Networking (Mobile Infotainment Application) – Gold Award<br>Best Lifestyle (Free Living) – Gold Award<br>Best Lifestyle (Free Living) – Silver Award<br>Best Ubiquitous Networking (Digital Media Marketing Campaign) – Silver Award<br>Best Ubiquitous Networking Outstanding 3G Solution | <br><br>PCCW mobile<br>PCCW mobile<br>PCCW mobile<br>MOOV<br>PCCW eye<br>PCCW eye<br>PCCW mobile | HK Computer Society, HK Digital Entertainment Association, HK Information Technology Federation, HK Institute of Engineers IT Division, HK Wireless Technology Industry Association and Internet Professional Association |
| <b>Hong Kong Law Awards 2007</b><br>Paul Weiss Award IT/Telecom In-house Team of the Year                                                                                                                                                                                                                                                                                                                                             | PCCW                                                                                             | Asia Legal Business                                                                                                                                                                                                       |
| <b>6th Hong Kong Occupational Safety &amp; Health Awards</b><br>Safety Management System (Others) – Gold Award<br>Best Presentation – Silver Award                                                                                                                                                                                                                                                                                    | CASCADE<br>CASCADE                                                                               | Occupational Safety and Health Council                                                                                                                                                                                    |
| <b>Hong Kong Service Awards 2007</b>                                                                                                                                                                                                                                                                                                                                                                                                  | IDD and NETVIGATOR                                                                               | East Week                                                                                                                                                                                                                 |
| <b>Hong Kong Volunteer Award 2007</b><br>1st Runner-up in Highest Service Hours Award (Private Organizations – Category 1)                                                                                                                                                                                                                                                                                                            | PCCW                                                                                             | Hong Kong Government's Social Welfare Department                                                                                                                                                                          |
| <b>IT Square Editors' Choices 2007</b><br>Best Business Internet Service<br>Best Intelligent Communications Solution Grand Award<br>Best Business Mobile Communication Services                                                                                                                                                                                                                                                       | Business NETVIGATOR<br>ONE communications<br>PUSH eMail                                          | Sing Tao Daily                                                                                                                                                                                                            |
| <b>Metro Global Creative Awards 2007</b><br>Hong Kong Top 10 Most Creative Ad                                                                                                                                                                                                                                                                                                                                                         | MOOV on mobile                                                                                   | Metro Daily                                                                                                                                                                                                               |
| <b>Mystery Shoppers Program 2007</b><br>Telecommunications Category – Service Retailer of the Year                                                                                                                                                                                                                                                                                                                                    | PCCW shops                                                                                       | Hong Kong Retail Management Association                                                                                                                                                                                   |
| <b>Outstanding Corporate Strategy Award 2007</b>                                                                                                                                                                                                                                                                                                                                                                                      | NOW TV                                                                                           | East Week                                                                                                                                                                                                                 |
| <b>PC Weekly Brand Award 2007</b><br>Brand for Mobile Network Service<br>Brand for Fixed Broadband Service                                                                                                                                                                                                                                                                                                                            | PCCW mobile<br>NETVIGATOR                                                                        | PC Weekly                                                                                                                                                                                                                 |
| <b>Proud Hong Kong Corporate Brands 2007</b><br>Telecommunication services category Consumer Grand Award                                                                                                                                                                                                                                                                                                                              | PCCW                                                                                             | Ming Pao                                                                                                                                                                                                                  |
| <b>11th Quality Improvement &amp; Experience Sharing Convention</b><br>My Favourite Presentation Team Award and Best Storyline Award                                                                                                                                                                                                                                                                                                  | PCCW                                                                                             | QIES Convention Organizing Committee                                                                                                                                                                                      |
| <b>Retail and Service Sectors "Star" Employees Competition 2007</b><br>High Flyer Award and Vibrant Star Merit Award                                                                                                                                                                                                                                                                                                                  | PCCW shops staff                                                                                 | Job Finder                                                                                                                                                                                                                |
| <b>2007 Service &amp; Courtesy Award</b><br>Best Team Performance Award<br>Electronic/Electrical & Telecommunications Category – Junior Frontline Level                                                                                                                                                                                                                                                                               | PCCW shops staff<br>PCCW shops staff                                                             | Hong Kong Retail Management Association                                                                                                                                                                                   |
| <b>Service Partner of the Year 2007</b>                                                                                                                                                                                                                                                                                                                                                                                               | PCCW                                                                                             | HK Domain Name Registration Company                                                                                                                                                                                       |
| <b>Sing Tao Excellent Services Brand Award 2007</b>                                                                                                                                                                                                                                                                                                                                                                                   | NETVIGATOR                                                                                       | Sing Tao Daily                                                                                                                                                                                                            |
| <b>Telecom Asia Awards 2007</b><br>Best Broadband Service Provider                                                                                                                                                                                                                                                                                                                                                                    | NETVIGATOR                                                                                       | Telecom Asia Group                                                                                                                                                                                                        |
| <b>Telecoms World Middle East Awards 2007</b><br>Best Managed Services                                                                                                                                                                                                                                                                                                                                                                | PCCW Global                                                                                      | Terrappinn                                                                                                                                                                                                                |
| <b>Top 50 Teleservices Agencies Award 2007</b><br>1st in Interactive Inbound Teleservices Agencies<br>10th in International Inbound Teleservices Agencies<br>11th in International Outbound Teleservices Agencies<br>13th in Global Top 50 Teleservices Agencies                                                                                                                                                                      | PCCW Teleservices<br>PCCW Teleservices<br>PCCW Teleservices<br>PCCW Teleservices                 | Customer Inter@ction Solutions Magazine                                                                                                                                                                                   |
| <b>Top Outsourcer Awards 2007</b><br>1st in Inbound Automated Call Handling<br>1st in Outbound SMS Volume<br>1st in Number of Outbound Agents Serving APAC<br>1st in Number of Blended Agents Serving APAC                                                                                                                                                                                                                            | PCCW Teleservices<br>PCCW Teleservices<br>PCCW Teleservices<br>PCCW Teleservices                 | ContactCenterWorld.com                                                                                                                                                                                                    |
| <b>Top Service Awards 2007</b><br>Best Internet Service Provider<br>Gold Award                                                                                                                                                                                                                                                                                                                                                        | NETVIGATOR<br>NETVIGATOR                                                                         | NEXT Magazine                                                                                                                                                                                                             |
| <b>TOUCH Brands 2007</b>                                                                                                                                                                                                                                                                                                                                                                                                              | PCCW mobile                                                                                      | East TOUCH magazine                                                                                                                                                                                                       |
| <b>Trusted Brands 2007</b><br>Telecom Company category Platinum Winner                                                                                                                                                                                                                                                                                                                                                                | PCCW                                                                                             | Reader's Digest                                                                                                                                                                                                           |

# KEY FIGURES

## FINANCIAL HIGHLIGHTS

For the year ended December 31, 2007  
In HK\$ million (except for per share data)

|                                                                 | 2007            | 2006     |
|-----------------------------------------------------------------|-----------------|----------|
| Turnover                                                        |                 |          |
| Core revenue*                                                   | <b>20,581</b>   | 18,374   |
| PCPD                                                            | <b>3,134</b>    | 7,263    |
|                                                                 | <b>23,715</b>   | 25,637   |
| Cost of sales                                                   | <b>(10,538)</b> | (12,973) |
| General and administrative expenses                             | <b>(9,144)</b>  | (8,904)  |
| Other (losses)/gains, net                                       | <b>(3)</b>      | 42       |
| Losses on property, plant and equipment                         | <b>(7)</b>      | (11)     |
| Finance costs, net                                              | <b>(1,229)</b>  | (1,276)  |
| Share of results of jointly controlled companies and associates | <b>13</b>       | 37       |
| Profit before taxation                                          | <b>2,807</b>    | 2,552    |
| Income tax                                                      | <b>(970)</b>    | (920)    |
| Profit for the year                                             | <b>1,837</b>    | 1,632    |
| Attributable to:                                                |                 |          |
| Equity holders of the Company                                   | <b>1,503</b>    | 1,252    |
| Minority interests                                              | <b>334</b>      | 380      |
| Earnings per share (in HK cents)                                |                 |          |
| Basic                                                           | <b>22.21</b>    | 18.59    |
| Diluted                                                         | <b>22.18</b>    | 18.54    |
| Dividends per share (in HK cents)                               |                 |          |
| Interim dividend                                                | <b>6.50</b>     | 6.50     |
| Final dividend proposed after the balance sheet date            | <b>13.50</b>    | 12.00    |
| EBITDA <sup>2</sup>                                             |                 |          |
| Core EBITDA*                                                    | <b>6,506</b>    | 5,871    |
| PCPD                                                            | <b>790</b>      | 956      |
|                                                                 | <b>7,296</b>    | 6,827    |

## OPERATION HIGHLIGHTS

|                                                               | As at Dec 31,<br>2007 | As at Dec 31,<br>2006 | Better/<br>(Worse)<br>y-o-y |
|---------------------------------------------------------------|-----------------------|-----------------------|-----------------------------|
| Fixed line market share <sup>4</sup>                          |                       |                       |                             |
| Business lines                                                | <b>68%</b>            | 69%                   | (1)%                        |
| Residential lines                                             | <b>66%</b>            | 66%                   | 0%                          |
| Exchange lines in service ('000)                              | <b>2,590</b>          | 2,587                 | 0%                          |
| Business lines ('000)                                         | <b>1,183</b>          | 1,180                 | 0%                          |
| Residential lines ('000)                                      | <b>1,407</b>          | 1,407                 | 0%                          |
| Traditional data (Exit Gbps)                                  | <b>723</b>            | 485                   | 49%                         |
| International Private Leased Circuit bandwidth<br>(Exit Mbps) | <b>44,144</b>         | 22,994                | 92%                         |
| Total broadband access lines ('000)                           | <b>1,237</b>          | 1,117                 | 11%                         |
| now TV                                                        |                       |                       |                             |
| Installed ('000)                                              | <b>882</b>            | 758                   | 16%                         |
| Paying base ('000)                                            | <b>628</b>            | 501                   | 25%                         |
| Mobile subscribers                                            |                       |                       |                             |
| 3G post-paid ('000)                                           | <b>206</b>            | 55                    | 275%                        |
| 2G post-paid ('000)                                           | <b>460</b>            | 516                   | (11)%                       |
| 2G prepaid ('000)                                             | <b>405</b>            | 350                   | 16%                         |

\*Note: Please refer to page 49. Notes 2 and 4: Please refer to page 52.

## STATEMENT FROM THE CHAIRMAN



PCCW's reputation for innovation and quality bolstered our competitiveness in the world arena, enabling us to win more business overseas

The PCCW team has worked diligently to build on our unique quadruple-play capability, following launch in 2006. The result of last year's efforts was a succession of infotainment, connectivity and transactional services across our fixed-line, mobile, broadband Internet and TV platforms to enrich digital lifestyles.

At the same time, buoyant economic conditions created positive business sentiment, prompting further investment in Information & Communications Technologies (ICT) as a potent response to commercial growth and demand on government infrastructure. This generated promising business opportunities for the Company, both regionally and locally.

PCCW's reputation for innovation and quality also bolstered our competitiveness in the world arena, enabling the Company to win more business overseas by making our core expertise available on commercial terms.

Success in consumer and business markets in 2007 gave rise to a robust financial and operating performance, adding momentum to our pursuit of innovation and quality – to the benefit of PCCW's growing community of customers locally and abroad.

The Company has performed well as a world-class ICT player – and I wish to thank the management team and staff for building a stronger PCCW Group to address the challenges of the future.

A handwritten signature in blue ink, consisting of a large, stylized 'L' followed by a small 'i'.

**Richard Li**  
Chairman  
March 6, 2008

## STATEMENT FROM THE GROUP MANAGING DIRECTOR



PCCW is now able to address the broadest spectrum of Hong Kong society, thanks to our ability to deliver media content and transactional services via four platforms

Year 2007 represented a period of growth for PCCW in terms of financial performance, capability and stature at home and abroad.

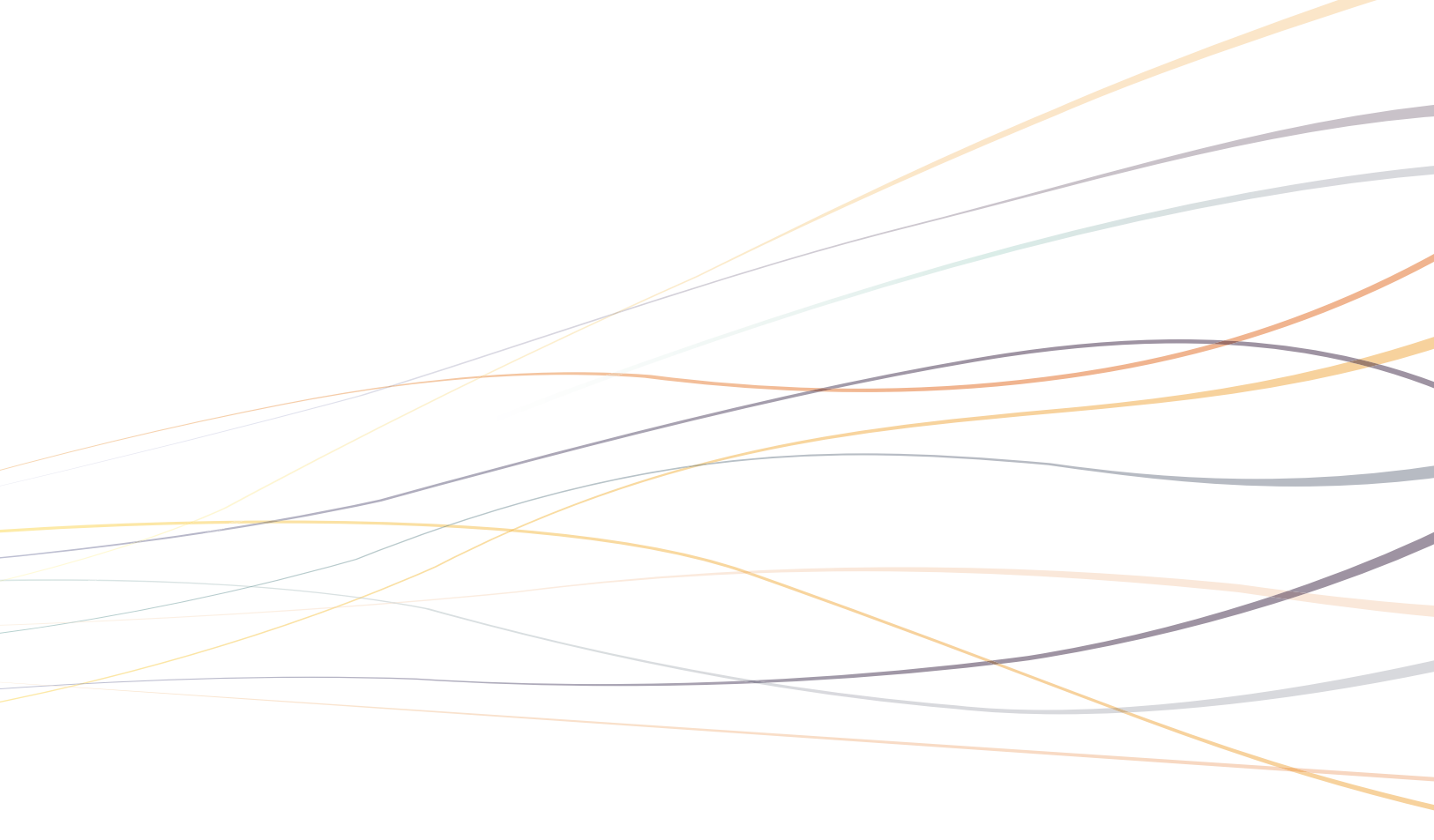
Building on our quadruple-play operations, we strengthened PCCW's leadership of a consumer market ready to embrace new ways of enhancing everyday Hong Kong life with technology.

Customers in the home and on the move are able to enjoy unprecedented freedom and convenience by utilizing our four delivery platforms – fixed-line, broadband Internet, TV and mobile – to suit individual preferences and schedules.

At the same time, an upbeat economy across the region in 2007 increased demand for PCCW's service to the business community, while our growing reputation for innovation and quality in Hong Kong has opened up commercial opportunities in markets around the world.

A shining example of that homegrown innovation is the **NOW TV** success story, which entered a new chapter in 2007 when we took leadership of the local pay-TV market after a little under four years. The Company's continued performance as a provider and producer of world-class media content has also had the effect of driving growth in our mobile business, transforming our fixed-line service and enriching Hong Kong's online experience.

In addition, **NOW TV**'s growing popularity created new revenue streams last year after we saw an opportunity to serve the business community by aligning advertising solutions with local, Asian and international programming. Exemplifying our unique position in the market, PCCW is now able to address the broadest spectrum of Hong Kong society, thanks to our ability to deliver media content and transactional services via four platforms.



Our fixed-line business over the last two years has demonstrated stability in the face of severe competition. What began as a revitalization of our core business in 2003 with New Generation Fixed Line services became a household revolution in 2007 when PCCW eye emerged as a helpful friend to every member of the family. Furthermore, our mobile, TV and broadband businesses have proven to be growth drivers for PCCW.

In the business world, private and public sector organizations at home and overseas called on our Commercial Group, as well as the Company's CASCADE technical services arm and PCCW Solutions IT flagship, to take on a number of large-scale projects in 2007. Similarly, PCCW Global met the sophisticated connectivity needs of an expanding customer base of enterprises and carriers from a growing presence in established and developing economies around the world.

This increasing activity regionally and beyond is making a growing contribution to the Group's prospects and promises a sustainable worldwide business.

In conclusion, I am gratified that the talent for innovation and passion for excellence demonstrated by PCCW's people last year have been rewarded with a record number of industry awards and other accolades, locally and internationally.

Indeed, the PCCW family's daily determination to succeed will help ensure we remain on course to achieving the Company's vision to be the very best in the service of customers at home and abroad.



Alex Arena

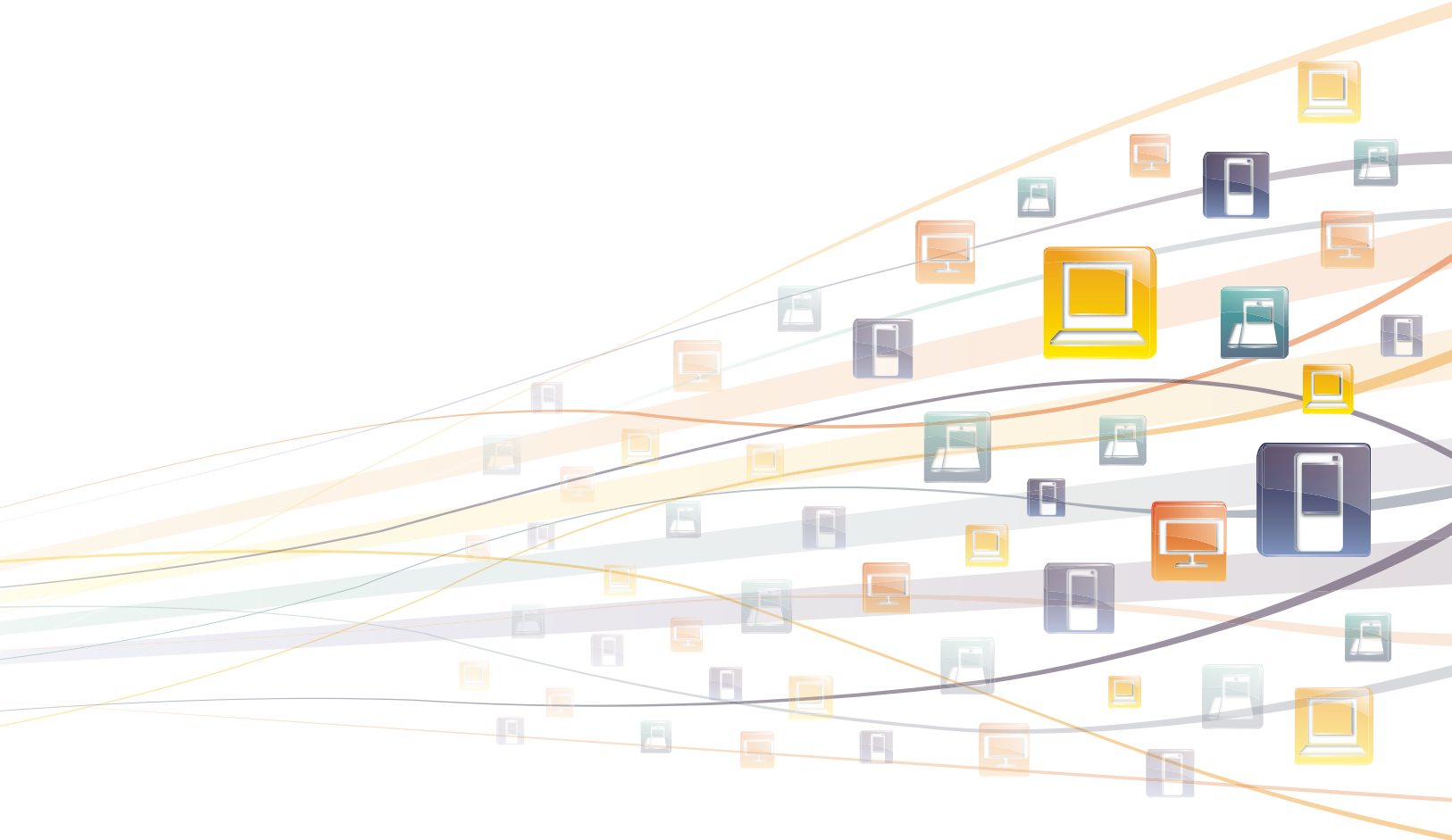
Group Managing Director  
March 6, 2008

# BUILDING ON HONG KONG'S PIONEERING QUADRUPLE-PLAY CAPABILITY

**PCCW** *mobile*®



**PCCW** Fixed Line



The PCCW brand grew stronger in 2007, thanks to innovative application of ICT to the improvement of everyday life at home, in the workplace and on the move.

Following launch in 2006, Hong Kong's only quadruple-play capability now serves consumers with unprecedented convenience and enjoyment by delivering infotainment and new-age services via fixed-line, broadband Internet, TV and mobile platforms.

Year 2007 also represented a significant milestone in our commercial market, as every single line of business achieved retail and wholesale revenue growth.

As well as creating new streams of income and improving profitability, PCCW's success in markets at home and overseas in 2007 gave rise to a record level of industry and consumer recognition, resulting in approximately 70 high-profile awards.

# SERVING EVERY MEMBER OF THE FAMILY – PCCW eye



## LOCAL TELEPHONY

Seizing every opportunity to enhance service since launch in 2003, PCCW has kept the New Generation Fixed Line experience fresh and appealing, thanks to an array of practical and entertaining audio and text content that can be called up at the touch of a button.

This ongoing revitalization of the once-humble home phone service helped PCCW to maintain a stable core fixed-line business in 2007, while improving average revenue per user (ARPU) performance.

An upbeat local economy set the scene for a modest net increase in PCCW's commercial lines and a rise in ARPU, as enterprises shifted their focus from trimming costs to harnessing the power of ICT to boost business.

Year 2007 also saw PCCW revolutionize business communications with the introduction of **one** communications, an integrated fixed/mobile solution that not only simplifies and unifies messaging systems into one interface but also enables professionals to enjoy sophisticated office facilities while on the road. Based on PCCW's developing Next Generation Network (see page 16), **one** communications won the Best Intelligent Communications Solution Grand Award in the Sing Tao Daily IT Square Editors' Choices 2007.

PCCW continued to take the lead in providing Macau's booming Las Vegas-style hotel and gaming industry with telecoms and IT equipment last year, while clinching lucrative service contracts to maintain infrastructure and systems into the future.

Large-scale contracts from major financial institutions in Hong Kong generated more than HK\$600m in contract revenue last year and included an IP infrastructure network project worth HK\$85m to connect more than 300 branches, as well as a HK\$57m data center cabling contract.

- Details of PCCW's 2007 success in local and international recognition schemes appear on pages 4 and 5.

## PCCW eye HOME MULTIMEDIA SERVICE

This versatile household breakthrough offers a prime example of PCCW's quadruple-play capability in action because infotainment and services from all our customer-delivery platforms are made available via the PCCW **eye** device.

Provision of a similar home infotainment and applications service is beginning to emerge as a trend in the US and Europe, whereas the concept is already reality for Hong Kong families. In fact, PCCW **eye**'s thoughtfully-crafted services are believed to be among the first of their kind in the world.

Users are able to watch the **now** NEWS and **now** Business News Channels, as well as CNN International and live Barclays Premier League soccer action along with other coverage from **now** SPORTS, plus the Cartoon Network and the Panda Channel supported by Ocean Park.

Subscribers can also access the MOOV digital music library's choice of more than 100,000 songs, shop from home, check real-time stock prices, pay bills, browse Yellow Pages and make voice or video calls via a menu-driven system that can be operated easily without need of even the most basic computer knowledge.

Subscribers can use PCCW **eye** to exchange SMS messages with fixed-line and mobile phones or enjoy our **snaap!** service by which friends and families share photos stored digitally in the PCCW network.

In early 2008, the PCCW **eye** experience was enhanced such that subscribers are now able to check recent Octopus transactions and balance status, buy Mark Six lottery tickets, listen to multilingual recipes and help their children learn English and Putonghua in an interactive and fun way.

PCCW **eye** scooped Best Ubiquitous Networking (Digital Media Marketing Campaign) Silver Award and Best Lifestyle (Free Living) Silver Award honors in the Hong Kong ICT Awards 2007, which were designed with the support of the Hong Kong Government to commend local ICT excellence.

## INTERNATIONAL TELECOMS SERVICES

PCCW continued to lead Hong Kong's International Direct Dialing (IDD) market with services that include the IDD 0060 brand, which attracts significant mobile as well as fixed-line traffic. The Company's 2007 efforts were successful in bringing about a shift from growing volume of IDD minutes to raising ARPU in both consumer and commercial markets.

PCCW became the first in Hong Kong to integrate Wi-Fi and mobile networks with the launch of NETVIGATOR Everywhere



## LOCAL DATA

A buoyant economy continued to generate strong demand for data services in 2007, as local public and private sector organizations deployed more bandwidth-hungry applications to seize growth opportunities and keep up with demand.

Although the general trend in the price of bandwidth has been downward for some time, PCCW's revenues grew last year, thanks in part to an increase in wholesale demand for data-carrying services from other fixed-line and mobile operators.

An array of industry accolades last year included the Best Data and Telecom Services Provider, Managed Security Services and Managed Services Awards in the Computerworld Hong Kong Awards, as well as an Asia Pacific Services Innovation Award from the Metro Ethernet Forum.

## BROADBAND

In line with PCCW's philosophy of continuous improvement, the powerful NETVIGATOR brand was strengthened last year by enhancements to network quality, speed and mobility.

Enormous progress has been made in the quest to transform Hong Kong into a "Wi-Fi city" by increasing the number of hotspots from 400 in 2006 to more than 4,000 by early 2008.

High-speed, stable and secure wireless Internet access is never more than a short walk away in urban areas, with PCCW Wi-Fi users able to get online from convenience stores, food and beverage outlets, shopping malls, PCCW phone kiosks, institutions of tertiary education, a growing number of MTR stations and other busy locations.

The "Wi-Fi city" concept has proved so popular that traffic generated by our expanding network of hotspots has increased tenfold over the last 12 months, with even more Wi-Fi hotspots being provided exclusively by PCCW as part of a Hong Kong Government scheme. In addition, a joint 2007/2008 project with MTR Corporation Limited is expected to result in a PCCW Wi-Fi service onboard Airport Express trains.

The convenience and freedom of wireless broadband in households was also promoted last year with launch of the NETVIGATOR Home Wireless service, which combines broadband modem with wireless router to take connectivity into every corner of the home.

In August 2007, PCCW became the first in Hong Kong to integrate Wi-Fi and mobile networks with the launch of NETVIGATOR Everywhere, the most ubiquitous broadband solution in town. An Auto Network Selector device detects and selects the best connectivity between PCCW Wi-Fi hotspots and PCCW mobile's extensive 3G network, which is powered by a 7.2Mbps HSDPA capability – the first to be deployed in Hong Kong. A service enhancement later in the year offered the convenience of wireless broadband connectivity via SIM cards embedded in notebooks.

November 2007 also saw the launch of NETVIGATOR Fiber Direct to make the extraordinary capabilities of optical fiber available to some two-thirds of Hong Kong's households. Extending the range of bandwidth speeds available from 6 to 1,000Mbps, first-in-market packages combine optical fiber and wireless broadband connectivity with the option for **NOW** TV subscribers to enjoy high-definition viewing.

**snaap!** launched in early 2007 as the first service in Hong Kong to enable sharing and viewing of digital multimedia on a PC via broadband, **NOW** TV's channel 508, a mobile handset and the PCCW **eye** service. Customers are able to upload to a centralized library using a mobile phone or an online computer and share their digital albums via the four delivery platforms.

A wealth of innovative commercial applications and value-added services helped take the number of business broadband lines to a milestone 100,000 and boost ARPU last year, while our wholesale provision of broadband capacity to other operators increased significantly.

Accolades in 2007 included the Best Broadband Service Provider title from the Telecom Asia Awards, while NETVIGATOR won the Best Internet Service Provider award from Next Magazine for the ninth consecutive year.

PCCW's achievements in the broadband space also resulted in the Best Business Internet Service Provider title in the Computerworld Hong Kong Awards and Best Business Internet Service honors in the Sing Tao Daily IT Square Editors' Choices 2007.

- Details of PCCW's 2007 success in local and international recognition schemes appear on pages 4 and 5.

### **PCCW CONSUMER SALES AND CHANNELS**

PCCW runs one of the largest and most innovative sales operations in Hong Kong, via channels that include retail outlets, 24-hour call centers, a direct sales team and partnership arrangements.

Rising in number from 25 in 2006 to more than 40 last year, PCCW shops provide an interactive shopping experience, as well as practical demonstrations of our quadruple-play capability at work.

A hallmark of PCCW's 2007 performance was a high standard of customer service in all the Group's activities, setting a new benchmark for the local industry.

This was exemplified by numerous team and individual awards, such as those conferred on PCCW by the Customer Service Excellence Award 2007, organized by the Hong Kong Association for Customer Service Excellence.

### **TECHNOLOGY ROADMAP**

Innovative deployment of new technologies in 2007 added momentum to PCCW's ongoing transformation from traditional telecoms operator to a new-age provider of all types of media content, applications and transactional services.

Last year saw the migration of the first three PCCW telephone exchanges to our all-IP Next Generation Network (NGN), which has been designed to carry all traffic, whether voice, Internet, video, multimedia or applications.

With migration of all 95 exchanges scheduled for completion by 2015, the NGN project has been planned such that annual capital expenditure will be proportionate to investment traditionally required to keep legacy networks up to speed with demand. Transition has been planned on a just-in-time basis so that equipment is replaced at the end of economically-useful lifespans.

Rollout of optical fiber to buildings was accelerated in 2007 to support launch of **now** TV's high-definition TV (HDTV) service plus introduction of high-speed NETVIGATOR Fiber Direct broadband packages based on fiber-to-the-home technology.

In addition, software upgrades enabling HDTV encoder equipment to operate at lower speeds mean that **now** TV has extended HDTV service potential to cover approximately 80% of Hong Kong.

PCCW is also planning to provide and support home networking solutions that can be used for a multitude of applications such as security surveillance, building-management systems and digital home media centers for storing and sharing home videos and photographs.

As well as building on PCCW's unique quadruple-play capability in 2007, the Company worked on a plan to introduce wireless broadband Internet access for rail passengers, via onboard Wi-Fi systems.

## PCCW GLOBAL

Achieving significant growth in international reach and capability last year, PCCW Global serves enterprise and wholesale markets from a presence in Europe, the Americas, Africa, the Middle East and Asia.

This business unit offers a portfolio of integrated global communications solutions and a robust network that provides connectivity in more than 850 cities and 70 countries, thanks to a rising number of cost-effective network-to-network interface agreements with service providers. In addition, PCCW Global's internationally-dispersed frontline team provides a valuable worldwide sales-and-marketing service for the Group's other divisions.

After increasing twofold in 2006, the volume of traffic carried by PCCW Global's IP network doubled again last year, partly as a result of a surge in carrier business, especially in the Middle East, Africa and southeast Asia.



A strategic alliance between PCCW Global and China Netcom will provide high-definition multimedia solutions to facilitate live Beijing 2008 Olympic Games programming from Hong Kong's Television Broadcasts Limited (TVB).

Year 2007 saw business growth for PCCW Global's hosted PBX solution, by which enterprises are able to enjoy cost-effective Voice-over-Internet Protocol (VoIP) services, while the business unit's satellite-based cellular backhaul service grew in popularity among mobile phone operators in geographies that lack traditional infrastructure.

Other areas of growth last year included provision of cross-border connectivity for the banking community in southeast Europe via technology-independent MPLS solutions.

Also in 2007, PCCW Global worked closely with China Netcom to develop solutions that will enable the world's media to get high-quality TV coverage of the Beijing 2008 Olympic Games to viewers all over the globe.

Industry recognition of PCCW Global's outstanding performance in 2007 came in the form of best international leased lines and international frame relay rankings in an independent Asia Pacific survey. Another industry study applauded PCCW Global for achieving the "highest level of execution" among global and regional service providers in Asia Pacific. The unit also won the Best Managed Services Award at the Telecoms World Middle East 2007 event in Dubai.

Working closely with China Netcom, PCCW Global will help the world's media send high-quality TV coverage of the Beijing 2008 Olympic Games all over the globe

## INTERNATIONAL PROJECTS

PCCW's growing reputation as a skilled innovator in the application of ICT led to the creation of the International Projects business unit in 2007 to address commercial opportunities around the world.

The Company's technical services arm, CASCADE, was already applying homegrown expertise to run IPTV and telecoms infrastructure projects overseas – but the new division combines CASCADE's technology excellence with media, enterprise service and content marketing experience earned by PCCW's other business units.

As well as serving telecoms operators, International Projects is attracting the interest of governments wanting to follow Hong Kong's lead by adopting the "smart city" concept in their home countries.

The business unit leads PCCW's partnership with one of The Kingdom of Saudi Arabia's two data service providers in a consortium that has been successful in applying for a fixed-carrier license with WiMAX-capable spectrum. In early 2008, the Saudi Arabia Government ratified award of the license in 2007 by the nation's Communications and Information Technology Commission. A PCCW team is now working on commercial and network strategies to put the consortium's plans into action. Saudi Arabia is served by one fixed-line operator in an industry reported to have achieved fixed-line penetration of just 18%, compared with Hong Kong's household fixed-line penetration rate of 95% – suggesting significant potential for the consortium to explore.



CASCADE professionals meet with colleagues from PCCW's partner company in a consortium that plans to build a fixed-line network and provide services in The Kingdom of Saudi Arabia.

International Projects is also working on several IPTV-related projects and examining other opportunities where PCCW can support existing operators or new telecoms and media providers.

Prospective clients or partners in a number of countries have expressed interest in emulating PCCW's quadruple-play capability, as well as innovations that have proved popular in the Hong Kong market and beyond. These include an array of lifestyle-enhancing ICT offerings such as the PCCW **eye** home multimedia service, plus CASCADE's wealth of experience in 3G mobile communications and wireless broadband services.

## CASCADE

CASCADE's considerable technology prowess came to the fore last year in the development of a succession of innovations.

These included high-profile offerings such as the PCCW **eye** home multimedia service, high-definition viewing from **now** TV and the **snaap!** digital photo and video sharing facility, as well as products for the business community, such as **ONE** communications and **PUSH** eMail.

CASCADE also worked on additional interactive features for **now** TV, rolled out more PCCW Wi-Fi hotpots and developed HDTV and MOOV enjoyment for PCCW mobile subscribers, as well as creating the **NETVIGATOR** Everywhere wireless Internet solution and **NETVIGATOR** Fiber Direct broadband packages.

In addition to developing a number of other new services for PCCW's quadruple-play capability, CASCADE extended **now** TV broadcasts to nearby Lamma Island and migrated three telephone exchanges to PCCW's Next Generation Network (NGN). This will eventually carry all services on one all-IP "superhighway", the first of its kind in Hong Kong (see page 16).

As well as serving PCCW's complex technology needs, CASCADE was involved in a number of large-scale projects for external customers. These included an upgrade for SDNet, the Hong Kong Exchanges and Clearing Limited project that has resulted in Asia's largest integrated, mission-critical, IP-enabled securities and derivatives network. CASCADE was also responsible for many major telecoms infrastructure projects serving Macau's booming hotel and gaming industry, as well as 10 IT&T systems for phase-two of the Hong Kong Science Park development.

Further afield, CASCADE is playing a central role in PCCW's membership of a consortium in Saudi Arabia that has been successful in applying for a fixed-carrier license to build a network and provide services (see page 18).

CASCADE will continue to contribute technology know-how and experience to a number of overseas projects – particularly in IPTV and telecoms services – led by PCCW's new International Projects business unit.

As one of the world's most technically-qualified providers, CASCADE received a number of certifications in 2007, covering aspects of a wide range of operations. Accreditations involved the ISO 20000, ISO 27001, ISO 9001:2000 and TL 9000 standards, awarded in addition to the Hong Kong Q-Mark Certificate from the Federation of Hong Kong Industries.

Accolades last year included gold and silver awards from Hong Kong's Occupational Safety and Health Council, plus Best-In-Class Recognition for Customer Satisfaction Management (Commercial Market) from the Asia Pacific Customer Service Consortium.

CASCADE played a crucial part in winning nine major trophies in schemes such as the GSM Association Asia Mobile Awards 2007, Hong Kong ICT Awards 2007 and Asia Pacific ICT Alliance (APICTA) Awards 2007.

- Details of PCCW's 2007 success in local and international recognition schemes appear on pages 4 and 5.

## CONTACT CENTERS

Branded PCCW Teleservices, our Contact Center Business (CCB) runs the largest networked operation of its kind in Asia.

As well as handling inbound and outbound calls for PCCW subscribers, CCB serves a growing number of multinational corporations by capitalizing on every form of contact with their customers.

Other sources of CCB income are business process outsourcing and facilities management markets that are attracting top-tier brand names.

PCCW Teleservices handles customer contact operations in 15 languages from 12 call centers located in Hong Kong, Beijing, Shanghai, Guangzhou, Panyu, Shenzhen and Taiwan's Tapei, as well as Manila in the Philippines.

A rise in business volume last year necessitated an increase in agent positions from 3,491 to 3,834, with the total number of agents expanding from 2,650 to 2,730.

CCB also designed and built a total of 21 contact centers and revamped eight others for clients in 2007, while winning contracts to maintain various systems empowering agents to handle inbound and outbound calls.

In addition, CCB has been generating revenue by marketing an in-house solution that offers large enterprises a new concept in customer relationship management. System sales under the Unicall brand created some 1,000 agent positions among customer organizations in Greater China over the last year.

Among CCB's most significant business wins in 2007 were a HK\$57m contract to run a general insurance program for one of the world's best-known banks, a HK\$23m deal to handle a personal loan program for another global banking brand, a HK\$33m agreement to run a credit card customer services center for a mainland China bank and a contract to design, build and maintain an inquiries center for yet another bank in China.

The business unit holds an impressive track record for winning local and international acclaim and has received Hong Kong Call Centre Association (HKCCA) awards every year since 2001. At the HKCCA Awards 2007, PCCW Teleservices won the Grand Award plus three contact center and four individual awards.

In addition, PCCW Teleservices was placed in the world's top 20 of all classes – including No.1 rankings in four categories – of the Top Outsourcer Awards 2007, staged by the globally-renowned ContactCenterWorld.com benchmarking organization.

- Details of PCCW's 2007 success in local and international recognition schemes appear on pages 4 and 5.



The PCCW Teleservices brand of customer service excellence enables multinational corporations to address markets in mainland China.

# ENRICHING LIFE ON THE MOVE WITH AWARD-WINNING INNOVATION



Twenty channels of TV programming are available to PCCW mobile's 3G subscribers, with more variety planned for 2008

The growing appeal of our quadruple-play capability served to expand PCCW mobile's customer base significantly last year in a mature and fiercely-competitive Hong Kong market.

A powerful illustration of that success was provided by the fact that PCCW mobile drew the largest net gain from subscribers porting their phone numbers between operators in the fourth quarter of 2007.

As well as building more 3G cell sites to improve network quality and coverage last year, PCCW mobile became the first in Hong Kong to launch a 7.2Mbps HSDPA capability plus seamless roaming between Wi-Fi, 3G and HSDPA technologies.

PCCW mobile is now able to address the broadest spectrum of customers with services and infotainment exemplified by Hong Kong's first real-time TV handset viewing experience from **now** on mobile and the first such delivery of high-definition live streaming from **now** SPORTS channels, featuring exclusive Barclays Premier League coverage and other world-class sports action. Twenty channels of TV programming, comprising 13 news and infotainment plus seven **now** SPORTS channels, are now available to PCCW mobile's 3G subscribers, with more viewing choices planned for 2008.

Hong Kong's largest digital music library plus exclusive live concert performances are also available to customers on the go, thanks to streaming technology from MOOV on mobile, while **snaap!** on mobile provides a digital multimedia

sharing service that can also be accessed via broadband, PCCW **eye** and **now** TV platforms.

Business users continue to benefit from a number of innovative applications, such as PCCW mobile's PUSH eMail service. In addition, a first-in-market SMS management service branded SMS BOXX was unveiled in early 2008, enabling subscribers to save important SMS and MMS messages automatically in a network storage facility. Another example of applications made available to PCCW mobile subscribers is the PCCW EasyWatch service, by which users can keep a watchful eye over home or business premises remotely via a Mobile CAM and 3G handset.

PCCW mobile's distinctive brand of innovation was responsible for attracting a record number of industry and consumer honors last year, such as the Award of the Year, Best Ubiquitous Networking Grand Award, Best Ubiquitous Networking (Mobile Infotainment Application) Gold Award and Best Ubiquitous Networking Outstanding 3G Solution title from the Hong Kong ICT Awards 2007. Other accolades included the Best Mobile Music Service title in the GSM Association Asia Mobile Awards 2007, plus the Best Business Mobile Communication Services award in the Sing Tao Daily IT Square Editors' Choices 2007.

- Details of PCCW's 2007 success in local and international recognition schemes appear on pages 4 and 5.

The first service of its kind in Hong Kong – high-definition viewing delivered to mobile handsets.





## REVOLUTIONIZING ENJOYMENT OF TV AND MUSIC IN HONG KONG



In less than four years since launch, **NOW TV** took leadership of the Hong Kong pay-TV market in 2007 with approximately 882,000 customer installations.

By year end, subscribers were able to choose from a lineup of 150-plus channels, more than 80 of which were offering exclusive movie, sports, news and general entertainment programming.

A milestone achievement in 2007 was launch of a high-definition TV (HDTV) service that represented the same quantum leap in viewing as when black-and-white television gave way to color.

HDTV appeal received a boost in July when **NOW TV** began broadcasting major sports events in high definition. These included exclusive soccer action from the Barclays Asia Trophy event, Barclays Premier League and Italian Serie A Championship. More spectacular HDTV programming became available when **NOW TV** unveiled round-the-clock channels such as **VOOM HD** and the National Geographic Channel HD.

In early 2008, PCCW launched the all-in-one set-top box, enabling subscribers to enjoy HD programming from Hong Kong's traditional terrestrial broadcasters, as well as from **NOW TV**, without having to buy more than one decoder.

**NOW TV** subscribers are able to enjoy a wide range of interactive features, allowing football fans to call up information such as team lineups and live scores while watching a match – or even split the screen and click between four games running simultaneously. Viewers are also able to take part in live polls, such as news program surveys or vote for the “player of the match” while watching soccer action.

In addition, a total of 10 **NOW Select** video-on-demand subscription services were made available last year, which meant football fans were able to relive their favorite matches from the Barclays Premier League and UEFA Champions League at any time. Similarly, movie lovers could choose from on-demand libraries offered by HBO, Star Chinese Movies and Mei Ah Movie Channel.

The TV & Content business unit ramped up **NOW TV**'s in-house production in 2007 with the creation of eight **NOW SPORTS** channels featuring coverage of premier world events and anchored by seasoned local sports commentators. Last year also saw launch of the 24-hour **NOW NEWS** Channel in Cantonese to join the **NOW Business News** Channel as stablemate.

Remaining faithful to the “a la carte” concept adopted by **NOW TV** at inception in 2003, the TV & Content business unit last year designed a number of keenly-priced packages with the option to pick and choose channels, making subscription even more attractive.

As part of PCCW's strategy to deliver enjoyment and convenience to suit customer lifestyles, infotainment from **NOW TV** is also available on mobile, broadband Internet and fixed-line platforms. For example, PCCW mobile subscribers are able to watch up to 20 channels on their handsets, while families can enjoy sports and news programs on the PCCW **eye** home multimedia service and PC users are able to view programming via [now.com.hk](http://now.com.hk).

That same quadruple-play capability also carries streamed music from **MOOV** to mobile phones, computers via broadband and the PCCW **eye** home multimedia device. With access to the largest and most comprehensive local music library, subscribers are able to choose from 100,000-plus titles in a hassle-free manner. Participating record companies now number more than 40 and include partners licensing their catalogs for digital consumption for the first time. Genres range from radio-plug pop, golden oldies and classical music to Cantonese opera and nursery rhymes.

More co-operation with record companies gave rise to **MOOV Live 2007** – Hong Kong's first-ever digital live concert series simulcast on broadband and mobile platforms. Subscribers were able to enjoy exclusive performances of pre-release album material from local stars, enhanced by unique interactive features, such as display of lyrics and production notes.

**MOOV** won industry acclaim after receiving the coveted Best Lifestyle (Free Living) Gold Award in the Hong Kong ICT Awards 2007.

- Details of PCCW's 2007 success in local and international recognition schemes appear on pages 4 and 5.

**now NEWS**

**now BNC**

**now SPORTS**

**nowshop**

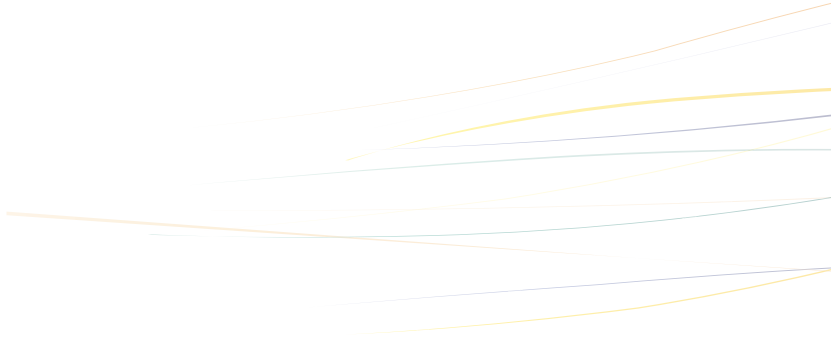


**now Game**



**snaap!**

# A TRULY UNIQUE MULTIPUBLISHING SERVICE TO THE WORLD'S ADVERTISERS



Popular **now** TV programming, unique interactive capabilities and a growing subscriber base have given rise to an entrepreneurial line of business in advertising solutions.

Formed in early 2007, the Advertising & Interactive Services (A&IS) business unit occupies a unique position in the market by commanding multiple channels to buyers and attracting a multitude of advertisers.

**now** TV (see page 23) is proving highly attractive to advertisers, especially as some of the most popular content, such as **now** SPORTS, **now** Business News Channel and **now** NEWS, are shown on all PCCW's quadruple-play platforms.

Within just a year, A&IS was able to make a compelling offer to the advertising market, generate a client list of household brand names and grow TV advertising revenues significantly.

Advertising solutions offered to corporations include broadcast and sponsorship advertising, sponsored segment programming and interactive advertising – including sales-lead generation ads – as well as information and game-based ads, plus sales transaction facilities.

Among the business unit's convenient and secure **now** TV offerings are the Hang Seng TV Securities Trading Service, a gourmet food ordering and delivery facility from Dial-A-Dinner and a holiday-booking service from the Lotus Tours travel agency.

Another trading partner is the world-famous Arsenal Football Club, which is working with **now** TV in Hong Kong – initially on an exclusive basis – to sell the prestigious Arsenal Opus club history book among local fans. As exclusive broadcaster of three seasons of Barclays Premier League football coverage, **now** TV and PCCW's quadruple-play capability provide the ideal multimedia approach for other top soccer clubs seeking to market branded goods.



NOW TV subscribers are able to browse and book holidays via NOW shop channel 501 or search through Yellow Pages via YP channel 502 at the push of a few buttons on the TV remote control.

The A&IS multipublishing offer includes a substantial online presence featuring reseller relationships with Internet giants such as Yahoo! Hong Kong – with which the Group enjoys a Gold Reseller relationship – Google, Baidu and SINA Hong Kong. This is provided alongside the business unit's own popular Internet Yellow Pages (IYP) site, which attracts advertisers and consumers alike and generates around 35 million page-views every month.

A&IS is able to connect Yellow Pages (YP) advertisers with buyers via multiple channels, which means consumers can conduct searches online and find their needs via IYP on mobile phones, the PCCW eye home multimedia device and NOW TV's YP channel 502. The latter enables customers to find a wide variety of local products and services via TV, the ultimate user-friendly interface. Advertisers can display information, photos in catalog format and a 360-degree panoramic view. The Property section, for example, displays accommodation for sale or rent, along with 120,000 transaction records for the last 12 months on a by-building basis.

Boasting 200,000 comprehensive listings, YP in print form remains hugely popular in Hong Kong, with the YP Consumer book alone generating some HK\$1.5 billion in sales for advertisers over a 12-month period, according to independent market research by Synovate.

In early 2008, A&IS signed a contract with the publisher of YP in Malaysia to provide an Integrated Publishing System developed in-house by PCCW. The solution is a software and management re-engineering package that enables YP companies to integrate advertising sales with other functions across multiple platforms.

**A&IS commands multiple channels to buyers and attracts a multitude of advertisers**

# BUILDING A SUSTAINABLE IT OUTSOURCING BUSINESS AT HOME AND ABROAD

PCCW Solutions continues to build a profitable and sustainable business by winning large-scale, long-term projects in Greater China and other parts of the world.

The Group's IT and business process outsourcing arm makes a significant contribution to Hong Kong's global image as a "digital city" and now seeks to establish the territory as Asia's IT data center outsourcing hub for multinational corporations.

In 2007, PCCW Solutions built IT outsourcing development centers in Shanghai and Beijing to complement an existing facility in Guangzhou, while creating International Enterprise Software Development Training Centers to groom local talent.

Contract wins last year included a sophisticated maritime thermal-imaging surveillance system for the Hong Kong Police Force, data center services for a major healthcare organization in Hong Kong and a CCTV system for the automated people mover at Hong Kong International Airport.

In mainland China, PCCW Solutions continued to serve high-profile customers such as China Mobile, while embarking on new projects for a leading television broadcaster and Sino Life Insurance, as well as planning a facilities management venture with China Netcom.

A contract signed in late 2007 set the scene for PCCW Solutions to design and build an electronic passport system for the Macau SAR Government, riding on the success of a similar project led by the business unit in Hong Kong.

Further afield, PCCW Solutions ran a consultancy project in Saudi Arabia, paving the way to membership of a local

consortium formed to bid for a contract to build an electronic passport system for the nation's Ministry of Interior.

In addition, PCCW Solutions won a contract to design a data center for Sudan Telecommunications Company (Sudatel), install a Point of Sale/Customer Relationship Management system for an international group of luxury brands and provide Asia-Pacific data center services for one of the world's top banking groups.

Industry recognition for the business unit's outstanding work on Hong Kong's e-PASS project last year included honors in the Asia Pacific ICT Alliance (APICTA) Awards 2007 and Hong Kong ICT Awards 2007. Other accolades included the Best ITO/BPO Award from China Information World, the Best IT Outsourcing Award from mainland China's 21st Century Business Herald and the IT Outsourcing Award from Computerworld Hong Kong.

- Details of PCCW's 2007 success in local and international recognition schemes appear on pages 4 and 5.



Grooming local IT talent in Beijing.

## A new license positions UK Broadband as the only WiMAX 3.5GHz spectrum holder in the UK, opening up the possibility of providing mobile broadband services

### **REACH**

As a 50:50 joint venture between PCCW and Australia's Telstra Corporation Limited (Telstra), REACH addresses the international service requirements of PCCW and Telstra via the operation and management of one of the most diverse, high-speed networks in Asia.

REACH is also the region's premier provider of international voice and satellite services and one of the world's largest carriers of international voice traffic, according to the TeleGeography communications industry research and analysis company.

### **UK BROADBAND**

A significant development for our United Kingdom (UK) wireless broadband business in 2007 was agreement from UK regulator Ofcom on a change of license that enables provision of mobile broadband services. This differs substantially from the former license, which covered "fixed wireless" Internet access at static locations. The new license opens up the possibility of offering services that enable customers to go online while on the move and positions UK Broadband – branded **now** – as the only mobile WiMAX 3.5GHz spectrum holder in the UK.

Industry and market developments over the last 12 months have indicated that WiMAX will become a key technology for broadband delivery and that 3.5GHz will be an important

band of standardized spectrum for the technology. These developments included adoption of WiMAX by the International Telecommunication Union as an IMT-2000 technology alongside the WCDMA 3G standard, as well as the World Radiocommunication Conference's adoption of 3.5GHz as a global mobile spectrum band.

Launched in the UK's Thames Valley in May 2004, UK Broadband expanded into areas of London in 2005 and covered more than half-a-million homes by the end of 2006.

### **PACIFIC CENTURY PREMIUM DEVELOPMENTS**

Majority-owned by PCCW, Pacific Century Premium Developments Limited (PCPD) is principally engaged in the development and management of premium property and infrastructure projects, as well as investment in premium-grade buildings, in the Asia-Pacific region.



Bel-Air, PCPD's flagship luxury residential development at Cyberport in Hong Kong.

# REGULATION OF HONG KONG'S ICT INDUSTRY



## INTRODUCTION

As well as being influenced by market forces, the Group's results are affected by policies established by the Hong Kong Government and the two regulatory bodies that oversee the telecommunications and media sectors – the Office of the Telecommunications Authority (OFTA) and the Broadcasting Authority (BA). Year 2007 saw the Company engaging fully with both regulators on policy and compliance issues.

## RETAIL SERVICES PRICING FLEXIBILITY

Year 2007 was PCCW's second full year of operation under our new ex-post license, which allows substantial retail pricing flexibility. This modification represents a significant change to OFTA's regulatory approach and has allowed PCCW to compete on a more level playing field. During the year, the Company launched a variety of promotions and loyalty programs, with ex-post tariff revisions being employed to enhance operations, introduce new services and support network investment. The significant decrease in customer churn from 2005 to 2007 was, in part, due to greater flexibility in responding to market developments, following the transition from ex-ante to ex-post regulation.

## WHOLESALE SERVICES

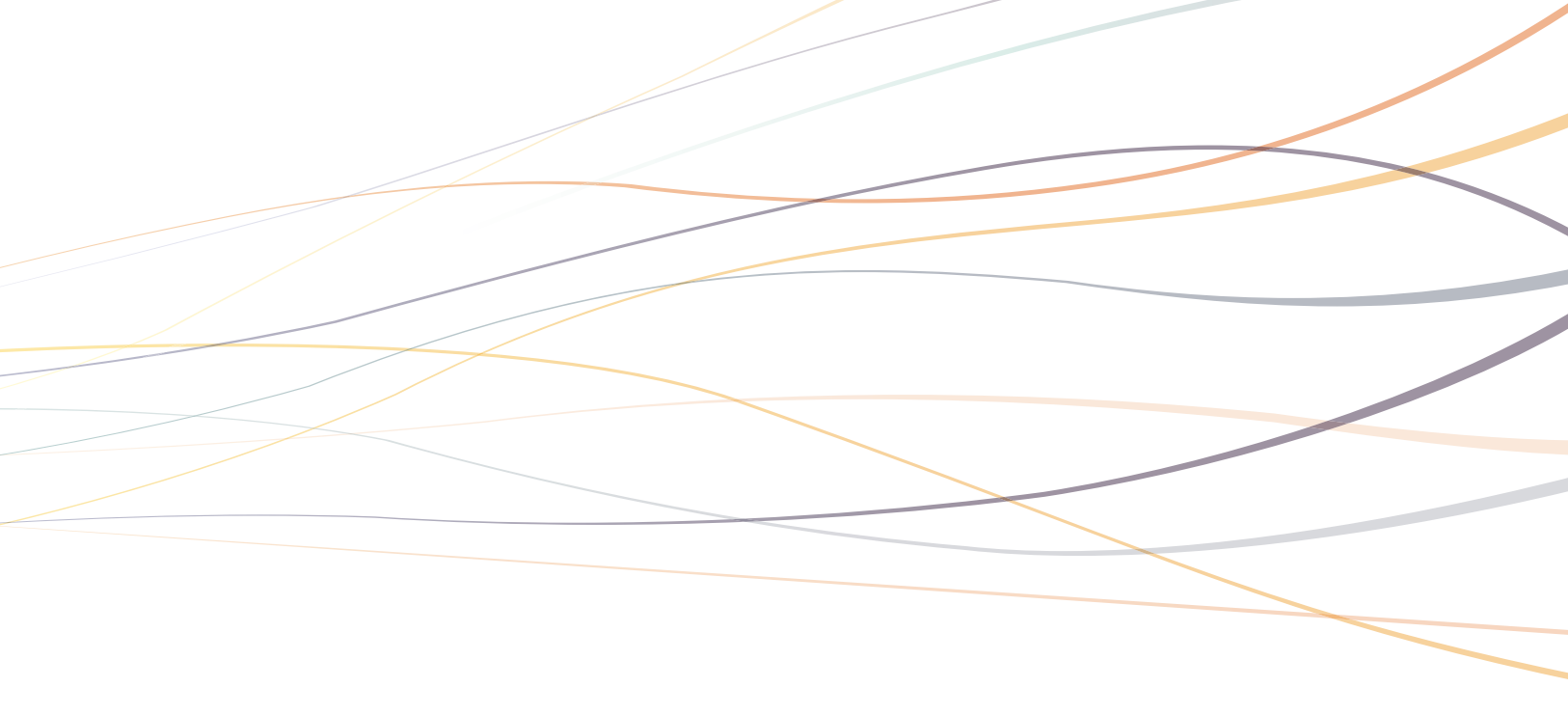
PCCW continued to provide other telecoms operators with network-to-network interconnection in 2007, with charges generally applied on a per-minute basis. In 2007, major per-minute interconnection rates remained unchanged. The Company also provides Fixed Telecommunications Network Services competitors with access to "last-mile" phonelines between exchanges and customers – a requirement known as "local loop unbundling" – pursuant to OFTA-approved tariffs and/or commercially agreed contracts. In addition, PCCW provides ISPs and other operators with bandwidth and other services, pursuant to OFTA-approved tariffs and/or commercially agreed contracts.

## SPECTRUM POLICY REVIEW

Following a review of the spectrum policy framework, the Hong Kong Government's conclusions were published in April 2007. Under the new policy framework, a spectrum release plan is to be published annually by the Telecommunications Authority (TA) showing spectrum bands scheduled to be released to the market over the next three years. Spectrum trading is expected to be introduced after further study, while spectrum liberalization is not to be introduced in the near term. Utilization fees, however, are to be levied on commercially-used spectrum, with a competitive auction process employed to determine the fee.

## BROADBAND WIRELESS ACCESS (BWA) SERVICES

The TA issued a third public consultation in May 2007 and a statement in December 2007 to conclude consultation. In the statement, the TA decided that both the 2.3GHz and 2.5GHz bands would be used to provide BWA services and that prescribed amounts of spectrum would be auctioned in the fourth quarter of 2008. No operator would be allowed to bid for more than 30MHz of spectrum and specified service roll-out timeframes would be imposed on the successful operators. While operators would be permitted to adopt any standard or technology, and would not be required to open up their networks to other service providers, they would be required to support number portability, including fixed/mobile number portability, should this be introduced in the future. Existing number ranges for fixed-line and mobile services would be used for BWA services, depending on whether fixed or mobile in nature.



### LICENSING FOR CDMA2000 SERVICE

In view of the expiry in November 2008 of a license currently being used to provide CDMA mobile service, OFTA initiated an industry consultation to consider whether spectrum (in the 850MHz range) should be released to the market to enable continuation of a mobile service using this standard. In a statement concluding the consultation in April 2007, the TA stated that the spectrum would be used to provide CDMA2000 mobile service and that only one license would be issued to provide such a service. On this basis, OFTA invited interested parties to apply for the CDMA2000 license and bid for the spectrum. PCCW made an application and was informed in October 2007 that it was the only applicant. Accordingly, PCCW was officially identified as successful bidder for the CDMA2000 license in November 2007 and paid the minimum fee of HK\$76m. Under the terms of the license, PCCW is required to roll out service to specific geographical areas by November 20, 2008 and other locations by 2010.

### FIXED MOBILE CONVERGENCE

In anticipation of increasing convergence between fixed-line and wireless services, OFTA issued consultation papers in September 2005 and July 2006 to solicit views from the industry. These consultations were concluded by the TA in April 2007 in a statement on “Deregulation for Fixed-Mobile Convergence”. In this statement, the TA decided that the current charging scheme for fixed/mobile interconnection (ie mobile party’s network pays) would be deregulated in two years, leaving fixed-line and mobile operators to negotiate their own interconnection charges and arrangements on commercial terms. The obligation to effect “any-to-any” interconnection, along with the Local Access Charge regime, was set to continue.

In addition, the TA’s April 2007 statement indicated that OFTA would look into demand for porting telephone numbers between fixed-line and mobile networks to decide whether such a facility should be introduced in Hong Kong. The statement also proposed that a Unified Carrier Licence enabling an operator to offer both fixed-line and mobile services should be introduced.

PCCW sought judicial review on procedural grounds before the consultation was concluded, but the court found against the Company in February 2007. An appeal against that decision was rejected. Separately, PCCW has sought review of the decision to deregulate the existing fixed/mobile interconnection regime through the Telecommunications (Competition Provisions) Appeal Board, with hearings set for 2008.

### BROADCASTING SERVICES

PCCW’s domestic pay-TV service continued to grow in 2007, during which the Company engaged the BA on a number of licensing and compliance issues, including revision of various codes of practice, complaints and program and advertising standards, as well as development of digital terrestrial television, copyright issues and broadcasting services on mobile devices.

### MOBILE TV

The Hong Kong Government launched a public consultation in January 2007 to seek input from the industry on spectrum and licensing arrangements that should be applied to the operation of mobile TV services in Hong Kong. PCCW submitted comments in May 2007. The consultation has not yet concluded.

# OUR PEOPLE ARE KEY TO PCCW'S CONTINUED SUCCESS

Keen pursuit of business opportunities added impetus to our people development efforts in 2007, based on the corporate belief that the PCCW team holds the key to the Company's continued success.

In total, staff members received 46,778 man-days of pre-eminent training and people development programs. These were provided in-house and by external experts and were offered to staff at junior/entry, professional and senior management levels.

## TECHNOLOGY AND PRODUCT TRAINING

In 2007, we provided staff with 21,520 man-days of technology and product training in the deployment of the latest technologies and equipment, as well as to support rollout of new services and maintain quality. This included training to serve the operation and maintenance needs of Next Generation Network (NGN) equipment and PCCW 1000M+ broadband service requirements and to groom IT talent within PCCW Solutions. Training in various software applications was also provided to equip staff with knowledge of the latest enterprise solution technologies.

A total of 657 industrial accreditations were obtained last year. These comprised project management-related certification (eg Project Management Professionals), IT platform operation and administration-related certification (eg Microsoft, HP and Sun Microsystems), networking-related certification (eg Cisco and Juniper) and security-related certification (eg Checkpoint, Certified Information System Security Professional and Certified Information System Auditor).

## SALES TRAINING

More than 1,200 man-days of sales training were provided in 2007 for Commercial Group and CASCADE and included the launch of a new Certified Consultant Development Scheme for pre-sales consultants. The scheme focused on business acumen, sales methodology, interpersonal skills and business consulting to help shape technology colleagues into multi-faceted business professionals able to identify and capitalize on external consultancy and technical services opportunities. In Commercial Group, a new negotiation workshop was developed for account and sales managers serving small-to-medium-sized enterprises and the trading and manufacturing sector, while a new training curriculum was designed to develop selling strategies and practices for our mobile business and to provide staff with product and market knowledge.



Aspiring executives enjoy an interactive training session.



The going gets tough in a Challenge21 Leadership Development Program exercise.

In addition, our teams in the Consumer Group, Contact Center Business, A&IS and PCCW Solutions business units benefited from more than 5,100 sales and presentation man-days.

Seven staff from Commercial Group and A&IS achieved excellent results at the 39th Distinguished Salesperson Award (DSA) Programme 2007, organized by the Hong Kong Management Association. This enabled PCCW to enjoy a ninth consecutive year of DSA triumph.

Our in-house training program “Fresh Talents Today, Sales Elite Tomorrow” for newly-hired graduates in Commercial Group won an award in Excellence in Training 2007, organized by the Hong Kong Management Association. This remarkable result underscored our dedication to nurturing young talent, as well as our endeavors in providing quality training programs. This non-traditional program focuses on raising levels of skill and the psychological well-being of employees in order to train them to become excellent salespeople. Last year, more than 100 new recruits benefited from this program.

## **BUSINESS, MANAGEMENT AND OTHER TRAINING**

We provided more than 18,900 man-days of training to staff across the Group in Greater China and other countries. These courses were tailor-made to sharpen skills in business development, customer service and people management.

Of the 18,900 man-days, more than 17,400 were provided on business aspects such as frontline customer service for our Contact Center Business and Consumer Group. A new “Enhancing Influence and Managing Conflict” course was developed for PCCW Solutions. Following two successful pilot programs, the same initiative will be extended to other business units in 2008.

Leadership and management training addressing all angles benefited our business units and gave rise to more than 1,500 man-days.

We also consider that a high degree of competence in leadership is critical for effective performance at individual, team and company levels. A Subordinate and Supervisor Feedback Survey enabled more than 360 senior managers to understand their strengths and identify opportunities for improvement in 30 key leadership areas in order to enhance leadership and management capabilities.

## **TALENT MANAGEMENT AND CAREER DEVELOPMENT**

Effective talent management is key to long-term business success. PCCW has talent development programs in place that focus on creating career opportunities for talented and ambitious candidates at home and abroad.

Our Graduate Development Programs are designed to attract young talent from the areas of engineering, IT, sales and marketing and human resources. In 2007, more than 200 undergraduates in Hong Kong and mainland China joined the Company's various business units.

## BUSINESS OVERVIEW

### People development

For senior managers, a Career Development Center was established last year to help them plan career and leadership advancement. Managers were assessed on leadership strengths and career interests by a panel of business unit heads. The idea was to assist management development and succession planning at the senior level by identifying and analyzing the qualities and aspirations of individual managers.

Six colleagues from the Company were attached to various departments at China Netcom headquarters under the CNC/PCCW Staff Exchange Program to develop an understanding of the culture and working environment in a state-owned enterprise, as well as to expand PCCW's network of contacts throughout China Netcom for future collaboration.

The 15-month Challenge21 Leadership Development Program has been designed to groom strong performers with management potential. PCCW firmly believes that employees' personal growth leads to company growth. A new program cycle commenced in September 2007 for 49 participants.

The Career Action Center is designed to retain talent and accelerate staff development for our Call Center Business units in Beijing and Guangzhou. More than 150 colleagues were assessed and those with leadership potential were given related job rotation and promotion opportunities to expand their career horizons.

### eLEARNING CENTER

PCCW maintains an online learning center that is readily accessible at any time by all employees in Hong Kong, mainland China and other locations. The center, known as the Aladdin eLearning Portal, offers a wide range of topics from business and management issues to ICT know-how.

### YOUTH DEVELOPMENT

PCCW assists in the development of youth by providing students with work experience via several channels.

Last year, 176 undergraduate students from local universities were placed in summer internship positions according to preference and experience. The program will be extended to between nine and 12 months in 2008 so that students get even greater benefit from the scheme.

The World Information Society Day is organized by the Communications Association of Hong Kong to promote the telecommunications industry among youngsters in secondary and tertiary schools. In 2007, more than 180 students visited PCCW's e-Center and IT Center facilities.

### STAFF BENEFITS AND WELFARE

As a caring employer, PCCW offers more than just competitive remuneration. The Company provides comprehensive benefits in the best interests of employee welfare, health and general well-being. These include:

- (i) Various types of leave provision to address sickness, marriage, maternity, paternity, educational examinations, occasions requiring compassion and court attendance, as well as for holidays;
- (ii) A healthcare program that offers comprehensive outpatient and hospitalization benefits to employees and their dependants;
- (iii) Retirement benefits and planning;
- (iv) Insurance, including business travel and personal accident cover;
- (v) Concessionary telephone services (for Hong Kong employees only);
- (vi) Professional counseling services to help staff with personal, family or work-related difficulties (for Hong Kong employees only); and
- (vii) A no smoking policy to help ensure a healthy environment.

With the quality of everyday working life in mind, the Company provides facilities for sports and recreation, as well as canteen services at several locations in Hong Kong. PCCW also organizes a wide variety of sports, social and recreational activities for the enjoyment of all employees.



Thousands of staff members and their families attend the PCCW Sports and Fun Day every year.

# OPERATING AS A SOCIALLY RESPONSIBLE CORPORATION

PCCW subscribes to the importance of being a socially responsible corporate citizen and is committed to operating in a manner that is economically, socially and environmentally sustainable, while balancing the interests of our various stakeholders.

PCCW is a socially-responsible corporation on the FTSE4 Good Global Index. In carrying out our activities, we pay attention to their impact on society, the environment and the people around us, as well as on our own employees. We have policies and measures in place to ensure our corporate social responsibility (CSR) objectives are met.

During the year, a new management committee was formed to guide expansion of our CSR initiatives, with a view to enhancing the benefits to all stakeholders, including our employees, customers, shareholders, suppliers and the community at large. Our aim is to maintain our status as one of Hong Kong's leading corporate citizens and to pursue continuous improvement.

In other parts of this annual report, we outline our initiatives and achievements as a caring employer (see page 32) and in meeting a high standard of corporate governance (page 41). This section mainly describes our contribution to the community.

PCCW is already well known for supporting a wide range of charitable, community, cultural and environmental causes with practical and financial help.

In our community volunteer and sponsorship work, we maintain a focus on caring for the disadvantaged and needy, while helping to narrow the “digital divide” so that less-privileged and remotely-located sections of society can benefit from everyday IT, such as Internet access.

### SPONSORSHIP AND VOLUNTEER PROGRAMS

For many years, PCCW has demonstrated concern for the safety and communications needs of Hong Kong's senior citizens. Our Care for the Elderly Line, in partnership with the Hong Kong Council of Social Service, has provided free telephone installation and service to more than 9,000 senior citizens since 1992. The Company also provides hotlines for the Personal Emergency Link Centre operated by the Senior Citizens Home Safety Association – a 24-hour inquiry and counseling service for single old people who may need an ambulance or police assistance.

Our Support Team for the Elderly volunteer program is now in its 11th year. Along with Tele-care for the Elderly and the Befriending Scheme for Senior Citizens, our volunteers provide personal care services in the homes of the elderly and in elderly-care homes.



Employees who made outstanding contributions to the community as volunteers in 2007 are honored at PCCW's Chinese New Year Dinner Gathering.

Last year, communications services and hotlines were also provided for government, non-government and social service organizations, as well as charities, in support of fundraising activities, counseling, training and community education. Beneficiaries included Po Leung Kuk, the Tung Wah Group of Hospitals, Oxfam Hong Kong, the Hong Kong Blind Union, Enlighten Hong Kong, the Hong Kong Medical Association, the Samaritans, the Samaritan Befrienders Hong Kong, the Agency for Volunteer Service, Yan Chai Hospital, the Society for the Promotion of Hospice Care, Pok Oi Hospital, Hong Kong Children and Youth Service, Hok Yau Club, Friends of Caritas, Cheshire Home, the Royal British Legion and the Hong Kong Cancer Fund.

The Company also supported various community programs organized by the Community Chest, OXFAM Hong Kong and Hong Kong Red Cross by mobilizing our employees to take part in events that included the Corporate and Employee Contribution Program, Skip Lunch Day, Dress Special Day, Green Day, Trailwalker and blood donor sessions.

Our volunteers and their family members served the elderly and deprived persons via 14 long-term volunteer service groups and other one-off programs. In addition, our volunteers continued to support mentally-challenged youth at The Salvation Army's Lai King Hostel, plus autistic pre-school children at the Heep Hong Society's Wan Chai Centre. Our volunteers also served as youth mentors at The Salvation Army's Wan Tsui Hostel. We joined 20 mentally-challenged

participants from the Yang Memorial Social Service last year onboard the Adventure Ship to help them strengthen personal development, self-confidence and teamwork.

All such services have been received positively, with most of our experimental projects evolving into long-term programs.

## EDUCATION

As part of our efforts to address the "digital divide", the Company last year partnered with government and non-government organizations in innovative initiatives to meet IT-learning needs. These involved the provision of hardware and free broadband service among various community groups, as well as IT volunteers working as assistant tutors at the remote Hans Andersen Club's Tai O Centre.

PCCW was sole sponsor of the Shanghai-Hong Kong Youth IT Summer Camp 2007, organized by the Hong Kong and Shanghai Computer Societies and the Children's Computer Centre at the China Welfare Institute. The Shanghai-based camp gave 40 local and Hong Kong secondary school students an understanding of China's preparation for the Beijing 2008 Olympic Games. Participants made use of IT in presentations of project work.

PCCW offered career advice to secondary school students via Junior Achievement Hong Kong and provided scholarships and bursaries for outstanding university students majoring in Computer Science or IT.



Volunteers visit senior citizens in elderly-care homes.



PCCW helps to narrow the "digital divide" so that less-privileged and remotely-located sections of the community can benefit from everyday IT.

## ENVIRONMENT

PCCW is committed to best environmental practice. Environmental sustainability policies, procedures and processes designed to reduce impact on the environment are maintained and enhanced continually throughout the PCCW Group.

In particular, PCCW maintains a number of programs designed to encourage recycling and minimize wastage of physical assets, such as toner cartridges, computers, commodities and paper-based products.

We recognize that the indiscriminate use of resources, such as energy and water, may have adverse effects on the environment. To this end, the Company has adopted policies, guidelines and efficiency goals in relation to energy and water management. We aim to ensure that the efficient use of primary resources continues to be an accepted and routine part of all operations and we monitor our performance continuously.

As a founding member of the Hong Kong Business Environment Council, PCCW also promotes energy conservation and waste reduction in the business sector by supporting the Council's sustainable development, clean harbor and clean air aims. PCCW is also a member of the Hong Kong General Chamber of Commerce's Environment Committee.

In addition, the Company provides free service, funding and volunteer support to a number of environment-protection schemes, including the Save the Electricity Contest, organized by Friends of the Earth (HK), and the Green Power Hike.

## RECOGNITION

PCCW has received numerous awards over the years in recognition of efforts to support the community, especially from our volunteer services.

In 2007, the Company received the 1st Runner-up in Highest Service Hours Award for the previous year in Private Organizations – Category 1 of the Hong Kong Volunteer Award 2007 run by the Hong Kong Government's Social Welfare Department.

PCCW was also presented with the Caring Company logo issued by the Hong Kong Council of Social Service, following nominations from 11 non-government organizations. This is in recognition of the Company's provision of a family-friendly and gender-sensitive environment for employees, a willingness to employ vulnerable groups, donations to the community, sharing business expertise with social service organizations, adoption of green practices and encouraging employees to serve the community as volunteers.

More recognition came in the form of a Community Chest Award of Distinction for donations generated by our various fund-raising programs, plus commendations for our youth mentorship program from the Social Welfare Department.

## BOARD OF DIRECTORS

**LI Tzar Kai, Richard**

Chairman



**Alexander Anthony ARENA**

Group Managing Director



## EXECUTIVE DIRECTORS

**LI Tzar Kai, Richard**

Chairman

Mr Li, aged 41, is Chairman of PCCW and Chairman of PCCW's Executive Committee. He is also Chairman and Chief Executive of the Pacific Century Group, Chairman of Pacific Century Premium Developments Limited (PCPD), Chairman of PCPD's Executive Committee and Chairman of Singapore-based Pacific Century Regional Developments Limited.

Mr Li is a Non-Executive Director of The Bank of East Asia, Limited. He is a member of the Center for Strategic and International Studies' International Councillors' Group in Washington, DC and a member of the Global Information Infrastructure Commission. He is also a Council Member of The Chinese University of Hong Kong.

**Alexander Anthony ARENA**

Group Managing Director

Mr Arena, aged 56, is Group Managing Director of PCCW, Deputy Chairman of PCCW's Executive Committee, a Director of Pacific Century Regional Developments Limited, and Deputy Chairman, an Executive Director and Executive Committee member of Pacific Century Premium Developments Limited.

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

Before taking up his post at OFTA, Mr Arena was appointed by the Hong Kong Government to plan a reform program for the liberalization of Hong Kong's telecommunications sector. Prior to his appointment to the Hong Kong Government, he served as an inaugural member of the Australian

Telecommunications Authority for four years. Mr Arena has led an extensive career in public administration, specializing in high technology and infrastructure industries. From a practicing radio/communications engineer to a public policy maker, his experience spans such diverse areas as commercialization of government-owned business enterprises and deregulation in the aviation, transport, telecommunications and postal industries.

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

**Peter Anthony ALLEN**

Executive Director

**CHUNG Cho Yee, Mico**

Executive Director

**LEE Chi Hong, Robert**

Executive Director

**Peter Anthony ALLEN**

Executive Director

Mr Allen, aged 52, is an Executive Director and Director of Corporate Development of PCCW, Group Managing Director of Pacific Century Regional Developments Limited and an Executive Director and Chief Financial Officer of the Pacific Century Group.

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

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

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

**CHUNG Cho Yee, Mico**

Executive Director

Mr Chung, aged 47, joined the Pacific Century Group in March 1999. He is an Executive Director of PCCW responsible for merger and acquisition activities and a member of PCCW's Executive Committee. He is also a qualified solicitor.

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

Mr Chung is Non-Executive Chairman and Non-Executive Director of Capital Strategic Investment Limited and an Independent Non-Executive Director of both E2-Capital (Holdings) Limited and HKC (Holdings) Limited.

**LEE Chi Hong, Robert**

Executive Director

Mr Lee, aged 56, joined PCCW in August 2002 and is an Executive Director of PCCW and a member of PCCW's Executive Committee. He is also an Executive Director and Chief Executive Officer of Pacific Century Premium Developments Limited (PCPD) and a member of PCPD's Executive Committee.

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

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

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

## NON-EXECUTIVE DIRECTORS

**Sir David FORD, KBE, LVO**, aged 73, is a Non-Executive Director of PCCW. 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. Most recently, 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.

**ZHANG Chunjiang**, aged 49, became a Non-Executive Director of PCCW on April 1, 2005.

Mr Zhang is Chairman and Executive Director of China Netcom Group Corporation (Hong Kong) Limited and has served as Chairman of China Netcom (Group) Company Limited since September 2004 and President of China Network Communications Group Corporation (China Netcom) since May 2003. Prior to joining China Netcom, Mr Zhang served as Deputy Minister of the Ministry of Information Industry (MII) of the PRC and was one of the most senior regulatory officials in the PRC telecommunications industry from December 1999 to May 2003.

From August 1993 to December 1999, Mr Zhang held a series of senior-level positions at the former Liaoning Provincial Posts and Telecommunications Bureau, the former Ministry of Posts and Telecommunications of the PRC (MPT) and the MII, including service as Deputy Director of the former Liaoning Provincial Posts and Telecommunications Administration, Director of the Mobile Communications Administration Bureau of the MPT and Director of the Telecommunications Administration Bureau of the MII.

Mr Zhang is a senior engineer at professor level and has extensive experience in telecommunications management, operations and technology. He graduated from Beijing University of Posts and Telecommunications in 1982 with a bachelor's degree in telecommunications.

**ZUO Xunsheng**, aged 57, became a Deputy Chairman and Non-Executive Director of PCCW on July 9, 2007.

Mr Zuo has served as Executive Director and Chief Executive Officer of China Netcom Group Corporation (Hong Kong) Limited (CNC HK) since May 2006, and as Chief Operating Officer of CNC HK from December 2005 to May 2006, overseeing general operations of the company. Mr Zuo has served as Senior Vice President of CNC HK since July 2004. He has also served as Vice President of China Network Communications Group Corporation (China Netcom) since April 2002.

Before joining China Netcom, Mr Zuo was President of the former Shandong Telecommunications Company from May 2000 to April 2002. From October 1997 to May 2000, he served as Director of the former Posts and Telecommunications Bureau of Shandong Province. From 1993 to 1997, Mr Zuo served as Director of the former Bureau of Telecommunications of Jinan City. He graduated from Guanghai School of Management of Peking University with an EMBA degree.

**LI Fushen**, aged 45, became a Non-Executive Director of PCCW on July 9, 2007.

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

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

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Professor CHANG Hsin-kang**, aged 67, is an Independent Non-Executive Director of PCCW.

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

He taught at several major universities in North America and served in a number of science and technology organizations and public advisory bodies in the United States and Hong Kong.

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

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

**Dr The Hon Sir LI Kwok Po, David, GBM, GBS, OBE, JP**, aged 68, is an Independent Non-Executive Director of PCCW. 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 30, 1987 to August 17, 2000.

Sir David is Chairman and Chief Executive of The Bank of East Asia, Limited, and a Director of numerous other companies in Hong Kong and overseas. He is a member of the Legislative Council of Hong Kong, Chairman of The Chinese Banks' Association, Limited and Chairman of the Council and Executive Committee of the Hong Kong Management Association. Sir David is also a member of the Banking Advisory Committee and the Council of the Treasury Markets Association.

**Sir Roger LOBO, CBE, LLD, JP**, aged 84, is an Independent Non-Executive Director of PCCW and Chairman of the Regulatory Compliance Committee of the Board.

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

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

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

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

**Aman MEHTA**, aged 61, became an Independent Non-Executive Director of PCCW on February 10, 2004 and is Chairman of the Audit Committee and the Nomination Committee of the Board.

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

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

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

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

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

**The Hon Raymond George Hardenbergh SEITZ**, aged 67, is an Independent Non-Executive Director of PCCW and Chairman of the Remuneration Committee of the Board. He was a Non-Executive Director of PCCW from October 2000 and was redesignated as an Independent Non-Executive Director on February 1, 2005. He is a Non-Executive Chairman and a member of the Special Committee of Sun-Times Media Group, Inc which is listed on The New York Stock Exchange, Inc.

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

# CORPORATE GOVERNANCE REPORT

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

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

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

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

## CORPORATE GOVERNANCE PRACTICES

PCCW has applied the principles and complied with all the code provisions of the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) for the year ended December 31, 2007.

## MODEL CODE SET OUT IN APPENDIX 10 TO THE LISTING RULES

The Company has established its own code of conduct regarding securities transactions by directors, senior management and relevant employees as defined in the Code, namely the PCCW Code of Conduct for Securities Transactions by Directors, Senior Management and Nominated Persons (the “PCCW Code”) in terms no less exacting than the required standard indicated by the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules.

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

The Directors’ and chief executive’s interests and short positions in shares, underlying shares and debentures of the Company and its associated corporations are disclosed in the Report of the Directors on pages 62 to 81 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), on which Board approval must be sought from time to time;
- those functions and matters in which Board approval must be sought in accordance with the Group’s internal policy as amended from time to time;
- consideration and approval of financial statements in interim and annual reports, announcements and press releases of interim and annual results;
- consideration of dividend policy and dividend amounts; and
- monitoring the corporate governance of the Group in compliance with relevant rules and regulations.

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

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

**BOARD OF DIRECTORS (CONTINUED)**

The Directors acknowledge their responsibility for preparing the financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and the Group and of the profit and cash flows of the Group for the year in accordance with Hong Kong Financial Reporting Standards, the Hong Kong Companies Ordinance and the Listing Rules. In preparing the financial statements for the year ended December 31, 2007, the Directors have selected suitable accounting policies and applied them consistently; made judgements and estimates that are prudent and reasonable, stated the reasons for any significant departure from applicable accounting standards in Hong Kong and have prepared the financial statements on a going-concern basis. The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position, results of operations, cash flows and changes in equity of the Group. The statement of

the auditor of the Company relating to their reporting responsibilities on the financial statements of the Company is set out in the Independent Auditor's Report on page 82 of this annual report.

As at March 6, 2008, the Board comprised 14 Directors including five Executive Directors, four Non-Executive Directors and five Independent Non-Executive Directors. Biographies of all the Directors are set out on pages 36 to 40 of this annual report.

The Board held four meetings in 2007. The Chairman of the Board and the Chairman of each of the respective Board Committees, namely the Audit Committee, the Nomination Committee and the Remuneration Committee attended the Annual General Meeting of the Company on May 31, 2007. The attendance of individual Directors is set out in the table below.

The attendance of individual Directors at Board and Board Committee meetings during 2007 is set out in the following table:

| Directors                                                                                       | Meetings attended/eligible to attend <sup>8</sup> |                 |                      |                        |
|-------------------------------------------------------------------------------------------------|---------------------------------------------------|-----------------|----------------------|------------------------|
|                                                                                                 | Board                                             | Audit Committee | Nomination Committee | Remuneration Committee |
| <b>Executive Directors</b>                                                                      |                                                   |                 |                      |                        |
| Li Tzar Kai, Richard ( <i>Chairman of the Board</i> )                                           | 4/4                                               | –               | 2/2                  | –                      |
| Alexander Anthony Arena <sup>1</sup> ( <i>Group Managing Director</i> )                         | 4/4                                               | –               | –                    | –                      |
| Peter Anthony Allen                                                                             | 4/4                                               | –               | –                    | –                      |
| Chung Cho Yee, Mico                                                                             | 4/4                                               | –               | –                    | –                      |
| Lee Chi Hong, Robert                                                                            | 4/4                                               | –               | –                    | –                      |
| So Chak Kwong, Jack <sup>1</sup>                                                                | 0/1                                               | –               | –                    | –                      |
| Dr Fan Xingcha <sup>2</sup>                                                                     | 0/2                                               | –               | –                    | –                      |
| <b>Non-Executive Directors</b>                                                                  |                                                   |                 |                      |                        |
| Sir David Ford                                                                                  | 4/4                                               | –               | –                    | –                      |
| Zhang Chunjiang                                                                                 | 4/4                                               | –               | 2/2                  | –                      |
| Zuo Xunsheng <sup>3</sup> ( <i>Deputy Chairman of the Board</i> )                               | 2/2                                               | –               | –                    | 0/1                    |
| Li Fushen <sup>4</sup>                                                                          | 2/2                                               | –               | –                    | –                      |
| Dr Tian Suning <sup>5</sup>                                                                     | 2/2                                               | –               | –                    | 2/2                    |
| <b>Independent Non-Executive Directors</b>                                                      |                                                   |                 |                      |                        |
| Prof Chang Hsin-kang                                                                            | 4/4                                               | 3/3             | –                    | –                      |
| Dr The Hon Sir Li Kwok Po, David                                                                | 4/4                                               | 3/3             | 1/2                  | 2/3                    |
| Sir Roger Lobo <sup>6</sup>                                                                     | 3/4                                               | 3/3             | 2/2                  | 3/3                    |
| Aman Mehta <sup>6</sup> ( <i>Chairman of the Audit Committee and the Nomination Committee</i> ) | 4/4                                               | 3/3             | 2/2                  | –                      |
| The Hon Raymond George Hardenbergh Seitz ( <i>Chairman of the Remuneration Committee</i> )      | 4/4                                               | –               | 2/2                  | 3/3                    |
| Dr Fung Kwok King, Victor <sup>7</sup>                                                          | 1/2                                               | –               | –                    | –                      |

## BOARD OF DIRECTORS (CONTINUED)

### Remarks:

1. So Chak Kwong, Jack resigned as Executive Director, Deputy Chairman and Group Managing Director and Alexander Anthony Arena was appointed Group Managing Director, both with effect from April 30, 2007.
2. Resigned as Executive Director of the Company with effect from July 9, 2007.
3. Appointed as Non-Executive Director of the Company and Deputy Chairman of the Board from July 9, 2007. He was also appointed a member of the Executive Committee and the Remuneration Committee with effect from July 9, 2007.
4. Appointed as Non-Executive Director of the Company with effect from July 9, 2007.
5. Resigned as Non-Executive Director of the Company and Deputy Chairman of the Board with effect from July 9, 2007. He also resigned as a member of the Executive Committee and the Remuneration Committee with effect from July 9, 2007.
6. The chairmanship of the Audit Committee changed from Sir Roger Lobo to Aman Mehta on November 23, 2007.
7. Retired as Independent Non-Executive Director of the Company at the Annual General Meeting on May 31, 2007.
8. Directors can attend meetings in person, by phone or through other means of electronic communication or by their alternate directors in accordance with the Company's Articles of Association.

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

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

## BOARD COMMITTEES

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

## EXECUTIVE COMMITTEE AND SUB-COMMITTEES

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

Members of the Executive Committee are:

Li Tzar Kai, Richard (*Chairman*)

Alexander Anthony Arena (*Deputy Chairman*)

Chung Cho Yee, Mico

Lee Chi Hong, Robert

Zuo Xunsheng<sup>3</sup>

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

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

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

## EXECUTIVE COMMITTEE AND SUB-COMMITTEES (CONTINUED)

A *Disclosure Committee* was established, comprising senior members of PCCW's Group Finance, Group Legal, Corporate Secretariat, Group Internal Audit and Risk Management departments. The committee met to review procedures for the preparation of PCCW's annual reports on Form 20-F to the US Securities and Exchange Commission to ensure compliance with the US Securities Exchange Act and the US Sarbanes-Oxley Act ("SOA") and reported to the Finance and Management Committee on an ad hoc basis. Following the delisting of PCCW's American Depositary Shares ("ADSs") from the New York Stock Exchange, Inc ("NYSE") on May 18, 2007, the Disclosure Committee was dissolved on September 10, 2007.

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

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

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

## REMUNERATION COMMITTEE

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

Members of the Remuneration Committee are:

The Hon Raymond George Hardenbergh Seitz (*Chairman*)  
Dr The Hon Sir Li Kwok Po, David  
Sir Roger Lobo  
Zuo Xunsheng<sup>3</sup>

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

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

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

The Remuneration Committee met three times in 2007. The record of attendance of individual Directors at the committee meetings is set out on page 42 of this annual report.

## REMUNERATION COMMITTEE (CONTINUED)

The following is a summary of work performed by the Remuneration Committee during 2007:

- (i) review and approval of the remuneration packages for Executive Directors and senior management;
- (ii) review and approval of the compensation package for an Executive Director;
- (iii) review and approval of the 2006 incentive bonus payment for Executive Directors;
- (iv) recommendation of Non-Executive Directors' fees for 2007 to the Board for approval;
- (v) recommendation of bonus scheme for Executive Directors and senior management to the Board for approval; and
- (vi) review of the terms of reference of the Remuneration Committee.

Details of emoluments of each Director are set out in the Financial Statements on pages 117 to 121 of this annual report.

## NOMINATION COMMITTEE

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

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

The Nomination Committee comprises six members, the majority of whom are Independent Non-Executive Directors.

Members of the Nomination Committee are:

Aman Mehta (*Chairman*)

Dr The Hon Sir Li Kwok Po, David

Li Tzar Kai, Richard

Sir Roger Lobo

The Hon Raymond George Hardenbergh Seitz

Zhang Chunjiang

The Nomination Committee met twice in 2007. The attendance of individual Directors at committee meetings is set out on page 42 of this annual report.

The following is a summary of work performed by the Nomination Committee during 2007:

- (i) recommendation to the Board of the list of retiring Directors, namely Li Tzar Kai, Richard, Alexander Anthony Arena, Dr The Hon Sir Li Kwok Po, David, Aman Mehta and The Hon Raymond George Hardenbergh Seitz for re-election at the annual general meeting on May 31, 2007;
- (ii) consideration of the replacement of Directors nominated by China Network Communications Group Corporation including consideration of the resignation of Dr Tian Suning as Non-Executive Director and Deputy Chairman, and Dr Fan Xingcha as Executive Director and recommendation to the Board for approval of the appointment of Zuo Xunsheng as Non-Executive Director and Deputy Chairman and Li Fushen as Non-Executive Director;
- (iii) review of the independence of all Independent Non-Executive Directors; and
- (iv) review of the terms of reference of the Nomination Committee.

## AUDIT COMMITTEE

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

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

The Audit Committee has recommended to the Board the re-appointment of PricewaterhouseCoopers for conducting statutory audits for the financial year 2008 at the forthcoming annual general meeting.

Each member of the Audit Committee is an Independent Non-Executive Director. Members of the Audit Committee are:

Aman Mehta<sup>6</sup> (*Chairman*)

Prof Chang Hsin-kang

Dr The Hon Sir Li Kwok Po, David

Sir Roger Lobo<sup>6</sup>

**AUDIT COMMITTEE (CONTINUED)**

The Audit Committee is provided with sufficient resources to discharge its duties and meets regularly with management, internal auditors and external auditors and reviews their reports. During 2007, the committee met three times. The attendance of individual Directors at the committee meetings is set out on page 42 of this annual report.

The following is a summary of work performed by the Audit Committee during 2007:

- (i) review of the annual report and annual results announcement for the year ended December 31, 2006 with a recommendation to the Board for approval;
- (ii) review of PricewaterhouseCoopers' independence and report, with a recommendation to the Board for the re-appointment of PricewaterhouseCoopers at the 2007 annual general meeting;
- (iii) review of continuing connected transactions;
- (iv) review of SOA compliance work report;
- (v) review of the Group Internal Audit reports;
- (vi) review of the risk management program;
- (vii) review of the new rules on US deregistration;
- (viii) review of the interim report and the interim results announcement for the six months ended June 30, 2007 with a recommendation to the Board for approval;
- (ix) review and approval of the auditor's report for the Audit Committee for the six months ended June 30, 2007 and management representation letter for the year ended December 31, 2007;
- (x) consideration and approval of the Company's Corporate Social Responsibility Policy with a recommendation to the Board for approval;
- (xi) review of the terms of reference of the Audit Committee;
- (xii) consideration and approval of audit and non-audit services;
- (xiii) approval of revised audit and non-audit services pre-approval policy;
- (xiv) review of the corporate governance report for the year ended December 31, 2006 and the corporate governance disclosures for the six months ended June 30, 2007 with recommendations to the Board for approval;
- (xv) review of the annual report on effectiveness of internal controls under the Code;
- (xvi) consideration of the change of the Chairman of the Audit Committee; and
- (xvii) assessment on renewal of PCCW Group Directors and officers' liability insurance.

Subsequent to the year end, the Audit Committee reviewed the annual report and annual results announcement for the year ended December 31, 2007 with a recommendation to the Board for approval.

For the year ended December 31, 2007, fees payable to the auditors of the Group amounted to approximately HK\$20 million for audit services (2006: HK\$25 million) and HK\$11 million for non-audit services (2006: HK\$10 million). The significant non-audit services covered by these fees included the following:

| Nature of service | Fees payable (HK\$ million) |
|-------------------|-----------------------------|
| Tax services      | 5                           |
| Other services    | 6                           |
|                   | 11                          |

## REGULATORY COMPLIANCE COMMITTEE

A Regulatory Compliance Committee comprising Executive and Non-Executive Directors, but excluding Chairman Li Tzar Kai, Richard, has been established to review and monitor dealings with Hutchison Whampoa Limited and its subsidiaries and Cheung Kong (Holdings) Limited and its subsidiaries. This is to ensure all dealings between these entities are conducted on an arm's-length basis.

Members of the Regulatory Compliance Committee are:

Sir Roger Lobo (*Chairman*)

Alexander Anthony Arena

Prof Chang Hsin-kang

Dr The Hon Sir Li Kwok Po, David

Zhang Chunjiang

## INTERNAL CONTROLS

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

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

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

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

Prior to the delisting of the Company's ADSs from the NYSE, which became effective on May 18, 2007, the Company adopted policies and procedures to comply with the stringent requirements of the SOA. 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, we have not changed our policies and procedures materially and believe that this will enhance the Company's corporate governance and business practices in the future.

During the year, Group Internal Audit conducted reviews of the effectiveness of the Group's system of internal controls over financial, operational, compliance controls and risk management functions and reported their findings to the Audit Committee, which then reviewed and reported the same to the Board. After a review of the accounting period ended December 31, 2007, the Audit Committee and the Board did not become aware of any areas of concern that would have an adverse impact on the Company's financial position or results of operations and considered the internal control systems to be effective and adequate.

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

## INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

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

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

Regular dialogue takes place with the investment community. Inquiries from individuals on matters relating to their shareholdings and the business of the Company are welcomed and dealt with in an informative and timely manner. The relevant contact information is provided on page 172 of this annual report.

Shareholders are encouraged to attend the forthcoming annual general meeting of the Company for which at least 21 days' notice is given. At the meeting, Directors are available to answer questions on the Group's business.

On behalf of the Board

**Philana WY Poon**

*Group General Counsel and Company Secretary*

Hong Kong, March 6, 2008

## MANAGEMENT'S DISCUSSION AND ANALYSIS

- Core revenue increased by 12% to HK\$20,581 million; consolidated revenue including PCPD decreased by 7% to HK\$23,715 million, reflecting lower recognition of property development revenue
- Core EBITDA increased by 11% to HK\$6,506 million; consolidated EBITDA including PCPD increased by 7% to HK\$7,296 million. Core segment results and consolidated segment results increased by 15% and 6% to HK\$3,308 million and HK\$4,023 million respectively
- Mobile achieved EBITDA breakeven – 3G mobile subscribers almost quadrupled to 206,000
- NOW TV has taken a leadership position in the local pay-TV market. Installed base was up 16% to 882,000
- Profit attributable to equity holders of the Company increased by 20% to HK\$1,503 million
- Basic earnings per share of 22.21 HK cents
- Final dividend of 13.5 HK cents per share

### MANAGEMENT REVIEW

PCCW reported healthy core business growth in 2007. The Group's commitment to delivering high quality, innovative products and services has enabled PCCW to maintain its market leader position. The success in operational metrics was translated into solid financial performance for the year ended December 31, 2007.

Core revenue for the year ended December 31, 2007 increased by 12% to HK\$20,581 million. The growth was driven by a 8% increase in Telecommunications Services ("TSS") revenue, a 70% surge in TV & Content revenue, a 19% increase in Mobile revenue, and a 9% increase in PCCW Solutions revenue. TSS growth was led by local data services and international telecommunications services, while the fixed-line business maintained a stable market share and a firm average revenue per user ("ARPU").

Consolidated revenue including PCPD for the year ended December 31, 2007 was HK\$23,715 million compared with HK\$25,637 million for the year ended December 31, 2006, reflecting lower revenue recognized from property completion from the Bel-Air project during 2007.

Benefiting from the revenue growth of TSS, Mobile and TV & Content, core EBITDA grew 11% to HK\$6,506 million for the year ended December 31, 2007. Consolidated EBITDA including PCPD increased by 7% to HK\$7,296 million.

Profit attributable to equity holders of the Company for the year ended December 31, 2007 increased by 20% to HK\$1,503 million and the basic earnings per share increased by 19% to 22.21 HK cents. The board of Directors (the "Board") has recommended the payment of a final dividend of 13.5 HK cents per share for the year ended December 31, 2007.

*Note: Core revenue refers to Group consolidated revenue excluding Pacific Century Premium Developments Limited ("PCPD"), the Group's property development and investment business; core EBITDA refers to Group consolidated EBITDA excluding PCPD; and core segment results refer to Group consolidated segment results excluding PCPD.*

## OUTLOOK

In 2007, we built on our first-in-market quadruple-play capability and were encouraged by the customer growth in each platform and across the services.

Year 2008 will see PCCW taking this strategy to the next stage with more innovative applications, captivating content, as well as enhancements to the user interface to attract an even wider cross section of the market.

Adding to the list of innovative products and services is the digital home networking and home media service, which offers our customers the convenience of being able to control digital TV viewing and other digital multimedia devices centrally from the comfort of their arm chair.

Our TSS business last year generated a growth momentum that we plan to maintain by exploring the full potential of existing network assets and delivering innovative value-added services.

The PCCW 3G mobile service is expected to benefit further from continuing development of value-added services plus world-class content from **NOW TV** and from **MOOV**, the unique digital streaming music service which will carry more music and videos. We expect the growing number of users demanding more mobility to be drawn to our wireless broadband solutions, which combine the speed, reliability and reach of PCCW's Wi-Fi, 3G and High-Speed Downlink Packet Access ("HSDPA") networks.

As a leading pay-TV service provider in Hong Kong, **NOW TV** plans on increasing its lead by introducing more High Definition ("HD") channels and more attractive packages of our enriched and largely exclusive programming to appeal to a wider audience. In addition, having reached a critical mass in terms of **NOW TV** viewership, the Group can now develop new sources of revenue from interactive advertising and transaction solutions delivered via multiple platforms.

Capitalizing on the growing trend of IT, business process and contact center outsourcing in the region, PCCW Solutions and PCCW Teleservices are extremely well positioned to win more large-scale projects. At the same time, the recently-created International Projects division is ideally placed to make the homegrown expertise held by Cascade Limited ("CASCADE"), our technical services arm, commercially available to overseas markets.

Having strengthened our position in Hong Kong through innovation, prudent investment and a determination to meet the changing needs of customers, the Group has established a solid foundation on which to develop a promising and sustainable business in markets at home and abroad.

## FINANCIAL REVIEW BY SEGMENTS

| For the year ended December 31,<br>HK\$ million                                                                                | 2007           |                |                 | 2006           |                |                 | Better/<br>(Worse)<br>y-o-y |
|--------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|-----------------|----------------|----------------|-----------------|-----------------------------|
|                                                                                                                                | H1             | H2             | Full Year       | H1             | H2             | Full Year       |                             |
| <b>Revenue<sup>1, 8</sup></b>                                                                                                  |                |                |                 |                |                |                 |                             |
| TSS                                                                                                                            | 7,706          | 8,930          | 16,636          | 7,405          | 7,969          | 15,374          | 8%                          |
| TV & Content                                                                                                                   | 715            | 988            | 1,703           | 505            | 497            | 1,002           | 70%                         |
| Mobile                                                                                                                         | 668            | 800            | 1,468           | 585            | 651            | 1,236           | 19%                         |
| PCCW Solutions                                                                                                                 | 826            | 969            | 1,795           | 737            | 915            | 1,652           | 9%                          |
| Other Businesses                                                                                                               | 165            | 84             | 249             | 162            | 166            | 328             | (24)%                       |
| Eliminations                                                                                                                   | (573)          | (697)          | (1,270)         | (546)          | (672)          | (1,218)         | (4)%                        |
| <b>Total Revenue (excluding PCPD)</b>                                                                                          | <b>9,507</b>   | <b>11,074</b>  | <b>20,581</b>   | <b>8,848</b>   | <b>9,526</b>   | <b>18,374</b>   | <b>12%</b>                  |
| PCPD                                                                                                                           | 2,100          | 1,034          | 3,134           | 5,276          | 1,987          | 7,263           | (57)%                       |
| <b>Consolidated Revenue</b>                                                                                                    | <b>11,607</b>  | <b>12,108</b>  | <b>23,715</b>   | <b>14,124</b>  | <b>11,513</b>  | <b>25,637</b>   | <b>(7)%</b>                 |
| <b>Cost of sales<sup>1</sup></b>                                                                                               | <b>(5,199)</b> | <b>(5,339)</b> | <b>(10,538)</b> | <b>(7,716)</b> | <b>(5,257)</b> | <b>(12,973)</b> | <b>19%</b>                  |
| <b>Operating costs before depreciation,<br/>amortization and restructuring costs<sup>1</sup></b>                               | <b>(2,799)</b> | <b>(3,082)</b> | <b>(5,881)</b>  | <b>(2,756)</b> | <b>(3,081)</b> | <b>(5,837)</b>  | <b>(1)%</b>                 |
| <b>EBITDA<sup>1, 2</sup></b>                                                                                                   |                |                |                 |                |                |                 |                             |
| TSS                                                                                                                            | 3,431          | 4,004          | 7,435           | 3,414          | 3,589          | 7,003           | 6%                          |
| TV & Content                                                                                                                   | (74)           | (83)           | (157)           | (155)          | (156)          | (311)           | 50%                         |
| Mobile                                                                                                                         | (56)           | 56             | –               | (70)           | (116)          | (186)           | N/A                         |
| PCCW Solutions                                                                                                                 | 102            | 48             | 150             | 83             | 68             | 151             | 0%                          |
| Other Businesses                                                                                                               | (335)          | (587)          | (922)           | (328)          | (458)          | (786)           | (17)%                       |
| <b>Total EBITDA (excluding PCPD)</b>                                                                                           | <b>3,068</b>   | <b>3,438</b>   | <b>6,506</b>    | <b>2,944</b>   | <b>2,927</b>   | <b>5,871</b>    | <b>11%</b>                  |
| PCPD                                                                                                                           | 541            | 249            | 790             | 708            | 248            | 956             | (17)%                       |
| <b>Consolidated EBITDA<sup>2</sup></b>                                                                                         | <b>3,609</b>   | <b>3,687</b>   | <b>7,296</b>    | <b>3,652</b>   | <b>3,175</b>   | <b>6,827</b>    | <b>7%</b>                   |
| <b>Consolidated EBITDA Margin<sup>2, 4</sup></b>                                                                               | <b>31%</b>     | <b>30%</b>     | <b>31%</b>      | <b>26%</b>     | <b>28%</b>     | <b>27%</b>      | <b>4%</b>                   |
| <b>Depreciation and amortization<sup>8</sup></b>                                                                               | <b>(1,610)</b> | <b>(1,660)</b> | <b>(3,270)</b>  | <b>(1,467)</b> | <b>(1,569)</b> | <b>(3,036)</b>  | <b>(8)%</b>                 |
| <b>Gain/(Loss) on disposal of property,<br/>plant and equipment, investment<br/>properties and interests in leasehold land</b> | <b>11</b>      | <b>(4)</b>     | <b>7</b>        | <b>(2)</b>     | <b>(23)</b>    | <b>(25)</b>     | <b>N/A</b>                  |
| <b>Restructuring costs</b>                                                                                                     | <b>–</b>       | <b>–</b>       | <b>–</b>        | <b>–</b>       | <b>(6)</b>     | <b>(6)</b>      | <b>N/A</b>                  |
| <b>Other (losses)/gains, net</b>                                                                                               | <b>55</b>      | <b>(58)</b>    | <b>(3)</b>      | <b>98</b>      | <b>(56)</b>    | <b>42</b>       | <b>N/A</b>                  |
| <b>Losses on property, plant and equipment</b>                                                                                 | <b>(2)</b>     | <b>(5)</b>     | <b>(7)</b>      | <b>–</b>       | <b>(11)</b>    | <b>(11)</b>     | <b>36%</b>                  |
| <b>Segment results<sup>1, 3, 8</sup></b>                                                                                       |                |                |                 |                |                |                 |                             |
| TSS                                                                                                                            | 2,392          | 2,930          | 5,322           | 2,401          | 2,549          | 4,950           | 8%                          |
| TV & Content                                                                                                                   | (150)          | (247)          | (397)           | (211)          | (228)          | (439)           | 10%                         |
| Mobile                                                                                                                         | (361)          | (257)          | (618)           | (292)          | (409)          | (701)           | 12%                         |
| PCCW Solutions                                                                                                                 | 73             | 23             | 96              | 62             | 46             | 108             | (11)%                       |
| Other Businesses                                                                                                               | (422)          | (673)          | (1,095)         | (380)          | (659)          | (1,039)         | (5)%                        |
| <b>Total segment results (excluding PCPD)</b>                                                                                  | <b>1,532</b>   | <b>1,776</b>   | <b>3,308</b>    | <b>1,580</b>   | <b>1,299</b>   | <b>2,879</b>    | <b>15%</b>                  |
| PCPD                                                                                                                           | 531            | 184            | 715             | 701            | 211            | 912             | (22)%                       |
| <b>Consolidated segment results<sup>3</sup></b>                                                                                | <b>2,063</b>   | <b>1,960</b>   | <b>4,023</b>    | <b>2,281</b>   | <b>1,510</b>   | <b>3,791</b>    | <b>6%</b>                   |

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

*Note 1* Certain comparative figures have been restated to conform with the business segment presentation in the current year:

- The Group's directories business, previously included in Other Businesses, has been reclassified to TV & Content.
- Certain Internet Protocol ("IP") -based international connectivity products and services, previously included in TSS-Other Services, have been reclassified to TSS-International Telecommunications Services.
- Certain operating expenses incurred in 2006 have been reclassified to cost of sales to conform with current year presentation.

*Note 2* EBITDA represents earnings before interest income, finance costs, income tax, depreciation of property, plant and equipment, amortization of land lease premium and intangible assets, gain/loss on disposal of property, plant and equipment, investment properties and interests in leasehold land, net other gains/losses, losses on property, plant and equipment, restructuring costs, impairment losses on interests in jointly controlled companies and associates and the Group's share of results of jointly controlled companies and associates. While EBITDA is commonly used in the telecommunications industry worldwide as an indicator of operating performance, leverage and liquidity, it is not presented as a measure of operating performance in accordance with the Hong Kong Financial Reporting Standards and should not be considered as representing net cash flows from operating activities. The computation of the Group's EBITDA may not be comparable to similarly titled measures of other companies.

*Note 3* Segment results represent earnings before interest income, finance costs, income tax, impairment losses on interests in jointly controlled companies and associates and the Group's share of results of jointly controlled companies and associates.

*Note 4* December 31, 2007 market shares were provisional figures and year-on-year percentage change was based on absolute percentage change.

*Note 5* As at the period end, with exception of International Direct Dial ("IDD") minutes, which is the total for the period.

*Note 6* Gross debt refers to the principal amount of short-term borrowings and long-term liabilities. Net debt refers to the principal amount of short-term borrowings and long-term liabilities minus cash and cash equivalents and certain restricted cash.

*Note 7* Group capital expenditure includes additions to property, plant and equipment, investment properties and interests in leasehold land held for own use. Interests in leasehold land held for development of HK\$nil (2006: HK\$495 million) are excluded.

*Note 8* As part of the Group's regular review process, the useful lives of certain fixed assets over which they are depreciated and the expected customer relationship period over which deferred installation revenue is amortized were reassessed during the year. The change in accounting estimates has been accounted for prospectively from July 1, 2007. Please refer to note 3 of the Consolidated Financial Statements for details.

## OPERATING DRIVERS<sup>5</sup>

|                                                                        | 2007          |               | 2006   |        | Better/<br>(Worse)<br>y-o-y |
|------------------------------------------------------------------------|---------------|---------------|--------|--------|-----------------------------|
|                                                                        | H1            | H2            | H1     | H2     |                             |
| Exchange lines in service ('000)                                       | <b>2,590</b>  | <b>2,590</b>  | 2,579  | 2,587  | 0%                          |
| Business lines ('000)                                                  | <b>1,183</b>  | <b>1,183</b>  | 1,176  | 1,180  | 0%                          |
| Residential lines ('000)                                               | <b>1,407</b>  | <b>1,407</b>  | 1,403  | 1,407  | 0%                          |
| Fixed line market share <sup>4</sup>                                   |               |               |        |        |                             |
| Business lines                                                         | <b>69%</b>    | <b>68%</b>    | 70%    | 69%    | (1)%                        |
| Residential lines                                                      | <b>66%</b>    | <b>66%</b>    | 66%    | 66%    | 0%                          |
| Total broadband access lines ('000)                                    | <b>1,176</b>  | <b>1,237</b>  | 998    | 1,117  | 11%                         |
| (Consumer, business and wholesale customers)                           |               |               |        |        |                             |
| Retail consumer broadband subscribers ('000)                           | <b>1,005</b>  | <b>1,060</b>  | 840    | 952    | 11%                         |
| Retail business broadband subscribers ('000)                           | <b>104</b>    | <b>107</b>    | 94     | 99     | 8%                          |
| Consumer narrowband subscribers ('000)                                 | <b>117</b>    | <b>111</b>    | 132    | 122    | (9)%                        |
| Traditional data (Exit Gbps)                                           | <b>614</b>    | <b>723</b>    | 351    | 485    | 49%                         |
| Retail IDD minutes ('M mins)                                           | <b>944</b>    | <b>947</b>    | 819    | 906    | 10%                         |
| International Private Leased Circuit ("IPLC")<br>bandwidth (Exit Mbps) | <b>47,098</b> | <b>44,144</b> | 15,489 | 22,994 | 92%                         |
| now TV                                                                 |               |               |        |        |                             |
| Installed base ('000)                                                  | <b>818</b>    | <b>882</b>    | 608    | 758    | 16%                         |
| Paying base ('000)                                                     | <b>560</b>    | <b>628</b>    | 444    | 501    | 25%                         |
| Mobile subscribers ('000)                                              | <b>957</b>    | <b>1,071</b>  | 781    | 921    | 16%                         |
| 3G post-paid ('000)                                                    | <b>119</b>    | <b>206</b>    | –      | 55     | 275%                        |
| 2G post-paid ('000)                                                    | <b>462</b>    | <b>460</b>    | 491    | 516    | (11)%                       |
| 2G prepaid ('000)                                                      | <b>376</b>    | <b>405</b>    | 290    | 350    | 16%                         |

**TSS**

The table below sets out the financial performance of TSS for the year ended December 31, 2007 and December 31, 2006:

| For the year ended December 31,<br>HK\$ million         | 2007         |              |               | 2006 <sup>1</sup> |         |           | Better/<br>(Worse)<br>y-o-y |
|---------------------------------------------------------|--------------|--------------|---------------|-------------------|---------|-----------|-----------------------------|
|                                                         | H1           | H2           | Full Year     | H1                | H2      | Full Year |                             |
| Local Telephony Services                                | 2,343        | 2,391        | 4,734         | 2,352             | 2,336   | 4,688     | 1%                          |
| Local Data Services                                     | 2,214        | 2,443        | 4,657         | 2,092             | 2,159   | 4,251     | 10%                         |
| International Telecommunications Services               | 1,591        | 1,748        | 3,339         | 1,394             | 1,497   | 2,891     | 15%                         |
| Other Services                                          | 1,558        | 2,348        | 3,906         | 1,567             | 1,977   | 3,544     | 10%                         |
| <b>TSS Revenue<sup>8</sup></b>                          | <b>7,706</b> | <b>8,930</b> | <b>16,636</b> | 7,405             | 7,969   | 15,374    | 8%                          |
| Cost of sales                                           | (2,466)      | (3,034)      | (5,500)       | (2,226)           | (2,345) | (4,571)   | (20)%                       |
| Operating costs before depreciation and<br>amortization | (1,809)      | (1,892)      | (3,701)       | (1,765)           | (2,035) | (3,800)   | 3%                          |
| <b>TSS EBITDA<sup>2</sup></b>                           | <b>3,431</b> | <b>4,004</b> | <b>7,435</b>  | 3,414             | 3,589   | 7,003     | 6%                          |
| <b>TSS EBITDA Margin<sup>2,4</sup></b>                  | <b>45%</b>   | <b>45%</b>   | <b>45%</b>    | 46%               | 45%     | 46%       | (1)%                        |

TSS growth momentum continued in 2007 with revenue pushing forward by another 8% to HK\$16,636 million, and EBITDA and segment results<sup>8</sup> growing by 6% and 8% to HK\$7,435 million and HK\$5,322 million respectively.

*Local Telephony Services.* Local telephony services revenue for the year ended December 31, 2007 was stable compared to a year ago at HK\$4,734 million. The Group successfully maintained its overall fixed-line market share in 2007 and the total fixed lines in service at the end of December 2007 grew slightly to approximately 2,590,000. Residential and business lines' market shares were approximately 66% and 68% respectively. Our focus turned to improving the profitability from operations in a buoyant economy. The retail price of our commercial fixed-line service was raised during 2007, resulting in an increase in ARPU.

*Local Data Services.* Local data services revenue for the year ended December 31, 2007 grew 10% to HK\$4,657 million, backed by growth in both broadband network and local data revenue.

The growth of broadband network revenue was led by a double-digit rise in revenue from consumer and business broadband services. After breaking through the one million milestone in 2006, the total broadband access lines in service reached 1,237,000 at the end of December 2007, up by 11% from a year ago. Line growth was driven mainly by the consumer broadband segment, which expanded due to greater demand for high-speed Internet access and captivating content on our media platforms. In sync with the surging demand for more high-speed broadband connections, more higher-speed broadband services were launched in 2007 providing Internet access speed of up to 1,000Mbps. Other factors stimulating demand include PCCW WiFi which enables high-speed outdoor wireless broadband connection via 4,000 hotspots city-wide.

The demand for high bandwidth connectivity services from the commercial market grew at a healthy pace as customer demand for bandwidth grew on increasing deployment of high bandwidth applications. This resulted in a 49% jump in bandwidth sold, which more than offset the impact from price compression.

*International Telecommunications Services*<sup>1</sup>. International Telecommunications Services revenue for the year ended December 31, 2007 increased by 15% to HK\$3,339 million. The revenue increase was led by growth in wholesale traditional and IP-based international connectivity services. Exit IPLC bandwidth almost doubled to 44,144Mbps, which more than offset the impact from price compression. Retail IDD minutes increased by 10% to 1,891 million minutes and average retail rates were stable compared to 2006.

*Other Services*<sup>1</sup>. Other services revenue for the year ended December 31, 2007 increased by 10% to HK\$3,906 million. Sales of our computer and customer premise equipment benefited from a vibrant commercial market. Revenues from our Teleservices business grew on the back of increasing demand for contact center outsourcing services from multinational corporations.

## TV & Content

| For the year ended December 31,<br>HK\$ million | 2007        |             |              | 2006  |       |           | Better/<br>(Worse)<br>y-o-y |
|-------------------------------------------------|-------------|-------------|--------------|-------|-------|-----------|-----------------------------|
|                                                 | H1          | H2          | Full Year    | H1    | H2    | Full Year |                             |
| <b>TV &amp; Content Revenue</b> <sup>1</sup>    | <b>715</b>  | <b>988</b>  | <b>1,703</b> | 505   | 497   | 1,002     | 70%                         |
| <b>TV &amp; Content EBITDA</b> <sup>1, 2</sup>  | <b>(74)</b> | <b>(83)</b> | <b>(157)</b> | (155) | (156) | (311)     | 50%                         |

The growth momentum of TV & Content remained strong. Driven by significant subscriber and ARPU growth, revenue in 2007 surged by another 70% to HK\$1,703 million. As a result, EBITDA loss and segment results both showed marked improvements.

**now TV**, a leading pay-TV service provider in Hong Kong, achieved an installed subscriber base of 882,000 at the end of 2007, up 16% from a year earlier. Paying subscribers reached 628,000 at the end of 2007, 25% more than a year ago. **now TV** carried the widest selection of content line-up with over 155 local and international channels at the end of December 2007, including over 80 exclusive world-class movie, sports, news and general entertainment channels. Adding to the wealth of the mass market content portfolio is the brand-new, self-produced 24-hour Cantonese language local and international news channel – **now NEWS Channel** (“**now NEWS**”) which was launched in October 2007. The enriched **now TV** content attracted more paying subscribers during the year.

ARPU increased significantly by 42% from a year ago to HK\$199 per month in December 2007. The improvement was driven by increasing uptake of the Mega Sports Pack, which includes the Barclays Premier League and other major international sports programs, and by growing demand for higher value plans and HD channels for live sports events, documentaries and entertainment content.

In 2007, the Group's Yellow Pages' directories business was integrated with the **now TV** advertising and **now** shop merchandising and transaction units to form a new Advertising & Interactive Services business team, providing premium broadcast and sponsorship advertising, interactive advertising, and transaction-based solutions on PCCW's print and quadruple-play platforms to both corporate and small-medium sized entities. The latest developments include the Hang Seng TV Securities Trading Service, and Yellow Pages Channel 502 which offers detailed information in audio-visual format.

**now.com.hk**, the largest broadband content portal in Hong Kong, continued to provide trendy video content including TV and radio programs, Asian dramas, instant news and sports matches. **MOOV**, our digital music brand, represents Hong Kong's first multi-platform delivery of the largest digital music library with 100,000-plus songs and music videos via **MOOV.now.com.hk** and **MOOV** on mobile, with extension to the PCCW **eye** home multimedia device in 2007. The creation of **MOOV Live** – Hong Kong's first-ever digital live concert series simulcast on both broadband and mobile platforms, featured local stars performing pre-released albums. **MOOV** has recently won the prestigious Best Lifestyle Gold Award in the Hong Kong ICT Awards 2007 and the Best Mobile Music Service in the GSMA Asia Mobile Awards 2007. **MOOV**'s subscription growth also contributed to an increase in the ARPU of **now.com.hk** during the year.

## Mobile

| For the year ended December 31,<br>HK\$ million | 2007        |            |              | 2006 |       |           | Better/<br>(Worse)<br>y-o-y |
|-------------------------------------------------|-------------|------------|--------------|------|-------|-----------|-----------------------------|
|                                                 | H1          | H2         | Full Year    | H1   | H2    | Full Year |                             |
| <b>Mobile Revenue</b>                           | <b>668</b>  | <b>800</b> | <b>1,468</b> | 585  | 651   | 1,236     | 19%                         |
| <b>Mobile EBITDA<sup>2</sup></b>                | <b>(56)</b> | <b>56</b>  | <b>–</b>     | (70) | (116) | (186)     | N/A                         |

Fuelled by a growing 3G subscriber base with a higher ARPU, revenue from Mobile increased by 19% to HK\$1,468 million in 2007. At the same time, Mobile achieved breakeven at the EBITDA level in 2007.

The Group continued to enhance its mobile network quality by achieving greater network coverage and better call quality for customers. Mobile had around 1,600 3G and 1,600 2G cell sites in place at the end of 2007. During the year, PCCW mobile introduced the PUSH eMail and Blackberry services and also launched the first-in-market 7.2Mbps HSDPA service, which is integrated into our WiFi/3G/HSDPA networks for seamless roaming service. This is aimed at providing the best possible wireless connectivity experience to PCCW mobile customers.

The total subscribers to PCCW's award winning mobile service increased by 16% to 1,071,000 at the end of 2007. The 3G subscriber base almost quadrupled to 206,000 in 2007 from 55,000 in 2006 while the total 2G subscriber base remained steady in 2007.

The ARPU of our 3G service increased by 7% from a year ago to HK\$216 per month in December 2007. Supported by the growing contribution from a larger 3G subscriber base, blended (2G and 3G) post-paid ARPU increased by 4% compared to a year ago to HK\$153 per month in December 2007.

Quadruple-play content available on PCCW mobile includes **NOW** TV, Barclays Premier League, **NOW** SPORTS HD and "MOOV on mobile". The unique quadruple-play content, together with other innovative mobile applications such as **snaapl**, PUSH eMail and **One** Communications integrated fixed/mobile solution, differentiated PCCW mobile from other operators. In recognition of its excellent services, several top honor industry awards were conferred on PCCW mobile in 2007, including the Award of the Year, the Best Ubiquitous Networking Grand Award, the Best Ubiquitous Networking Gold Award – Mobile Infotainment Application and the Best Ubiquitous Networking Outstanding 3G Solution title all from the Hong Kong ICT Awards 2007, and the Best Mobile Music Service in the GSMA Asia Mobile Awards 2007.

## PCCW Solutions

| For the year ended December 31,<br>HK\$ million | 2007       |            |              | 2006 |     |           | Better/<br>(Worse)<br>y-o-y |
|-------------------------------------------------|------------|------------|--------------|------|-----|-----------|-----------------------------|
|                                                 | H1         | H2         | Full Year    | H1   | H2  | Full Year |                             |
| <b>PCCW Solutions Revenue</b>                   | <b>826</b> | <b>969</b> | <b>1,795</b> | 737  | 915 | 1,652     | 9%                          |
| <b>PCCW Solutions EBITDA<sup>2</sup></b>        | <b>102</b> | <b>48</b>  | <b>150</b>   | 83   | 68  | 151       | 0%                          |

PCCW Solutions reported a 9% growth in revenue to HK\$1,795 million for 2007. The growth was attributable to strong public sector demand for IT solution services in Hong Kong and an increasing demand from mainland China, Macau, the Asia Pacific region and the Middle East.

During the year, PCCW Solutions won a number of significant industry awards, which recognized the high standard and quality of its services. Recent significant projects awarded include a long-term partnership with the Hong Kong Airport Authority to upgrade its operation systems, a hassle-free document scanning solution for the Registration and Electoral Office, and a logistics hub service for Franklin Covey to serve its customers in the Asia Pacific region.

PCCW Solutions also successfully expanded its business to markets beyond Hong Kong. It was awarded an electronic passport consulting project in Saudi Arabia, an electronic passport system contract for the Macau SAR Government and a data center design service contract from Sudatel in Sudan. In mainland China, PCCW Solutions expanded its clientele from telecommunications companies to companies in other industries, and secured contracts with a leading Chinese television broadcaster and Sino Life Insurance.

## PCPD

PCPD revenue for the year ended December 31, 2007 decreased by 57% to HK\$3,134 million, mainly due to lower revenue recognized from property completion from the Bel-Air project.

## COSTS

### Cost of Sales

| For the year ended December 31,<br>HK\$ million | 2007         |              |               | 2006 <sup>1</sup> |       |           | Better/<br>(Worse)<br>y-o-y |
|-------------------------------------------------|--------------|--------------|---------------|-------------------|-------|-----------|-----------------------------|
|                                                 | H1           | H2           | Full Year     | H1                | H2    | Full Year |                             |
| <b>The Group (excluding PCPD)</b>               | <b>3,787</b> | <b>4,720</b> | <b>8,507</b>  | 3,292             | 3,606 | 6,898     | (23)%                       |
| PCPD                                            | 1,412        | 619          | 2,031         | 4,424             | 1,651 | 6,075     | 67%                         |
| <b>Group Consolidated Total</b>                 | <b>5,199</b> | <b>5,339</b> | <b>10,538</b> | 7,716             | 5,257 | 12,973    | 19%                         |

The Group's consolidated total cost of sales for the year ended December 31, 2007 declined by 19% to HK\$10,538 million primarily due to a 67% decline in PCPD's cost of sales to HK\$2,031 million on lower recognition of sales of Bel-Air residential units.

PCPD's redevelopment project, named ONE Pacific Heights and located in Wo Fung Street to the west of Central, will comprise 155 luxury boutique apartments and is scheduled to complete in 2009. Meanwhile in mainland China, progress has been made on the Group's prestigious residential project at No.4 Gong Ti Bei Lu in Beijing's Chaoyang District which is planned for completion in 2010. PCPD's investment property, Pacific Century Place, enjoyed an average occupancy rate of 89% during the year. Pacific Century Place is currently home to many multinational corporations, world-class retailers and residential tenants.

For more information about the performance of PCPD, please refer to its 2007 annual results released on March 6, 2008.

## Other Businesses

In 2007, Other Businesses primarily includes the Group's telecommunications business in Taiwan, its wireless broadband business in the United Kingdom, and all corporate support functions. Revenue from Other Businesses decreased by 24% to HK\$249 million for the year ended December 31, 2007 as the Group continued to trim back non-core businesses and exited certain unprofitable businesses during the year.

## Eliminations

Eliminations were HK\$1,270 million for the year ended December 31, 2007. Eliminations primarily relate 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.

The Group's cost of sales excluding PCPD increased by 23% to HK\$8,507 million, reflecting higher cost of sales that was in line with its revenue growth, and higher content and customer acquisition costs to support the strong growth in the TV & Content and Mobile businesses.

## General and Administrative Expenses

| For the year ended December 31,<br>HK\$ million                                                                    | 2007  | 2006 <sup>1</sup> | Better/<br>(Worse)<br>y-o-y |
|--------------------------------------------------------------------------------------------------------------------|-------|-------------------|-----------------------------|
| Staff costs                                                                                                        | 2,785 | 2,803             | 1%                          |
| Rent, rates and utilities                                                                                          | 934   | 876               | (7)%                        |
| Other operating costs                                                                                              | 2,162 | 2,158             | 0%                          |
| Total operating costs before depreciation, amortization and restructuring costs                                    | 5,881 | 5,837             | (1)%                        |
| Depreciation and amortization                                                                                      | 3,270 | 3,036             | (8)%                        |
| (Gain)/Loss on disposal of property, plant and equipment, investment properties<br>and interests in leasehold land | (7)   | 25                | N/A                         |
| Restructuring costs                                                                                                | –     | 6                 | N/A                         |
| General and administrative expenses                                                                                | 9,144 | 8,904             | (3)%                        |

To cope with the Group's increased business activities, as evidenced by a 12% growth in core business revenue, general and administrative expenses in 2007 increased marginally by 3% to HK\$9,144 million. The increase in expenses was primarily due to higher rental and utilities costs and depreciation and amortization. Staff costs and other operating costs were held steady, which was made possible by the Group's efficient operating structure. Depreciation and amortization increased by 8% to HK\$3,270 million, reflecting the full year impact of 3G mobile network depreciation and higher amortization of intangible assets.

EBITDA<sup>2</sup>

Core EBITDA grew 11% to HK\$6,506 million for the year ended December 31, 2007. The growth was primarily driven by a 6% increase in TSS EBITDA to HK\$7,435 million, and by the rapidly ascending EBITDAs of Mobile and TV & Content.

Consolidated EBITDA including PCPD increased by 7% to HK\$7,296 million as the growth from the Group's core business referred to above was partially offset by a 17% decrease in PCPD EBITDA to HK\$790 million on lower recognition of Bel-Air sales.

Consolidated EBITDA margin improved by 4 percent from 27% in 2006 to 31% in 2007. The improved EBITDA margin was due to a higher margin from PCPD. Core business EBITDA margin was stable at 32%.

## Other (Losses)/Gains, Net

Net other losses were HK\$3 million for the year ended December 31, 2007 (2006: net other gains of HK\$42 million). The net other losses in 2007 primarily comprised provisions for impairment of investments and goodwill, partially offset by gains on disposals of financial assets and on derivative financial instruments.

Segment Results<sup>3</sup>

Core segment results, which exclude PCPD, were 15% higher than a year ago at HK\$3,308 million mainly reflecting the 11% increase in core EBITDA as mentioned above.

Consolidated segment results including PCPD increased by 6% to HK\$4,023 million primarily due to the strong 15% growth in core segment results referred to above, which more than offset the 22% reduction in the PCPD segment results to HK\$715 million.

## Interest Income and Finance Costs

Finance costs decreased by 17% to HK\$1,658 million for the year ended December 31, 2007 due to the repayment of the US\$450 million guaranteed convertible bonds and the US\$456 million guaranteed notes in January 2007. Interest income decreased by 41% to HK\$429 million due to a lower average cash balance. Net finance cost decreased by 4% to HK\$1,229 million. The average cost of debt for the year ended December 31, 2007 improved to 6% and the average remaining term of the loans and banking facilities was approximately 5 years.

### Share of Results of Jointly Controlled Companies and Associates

Share of results of jointly controlled companies and associates decreased to HK\$13 million for the year ended December 31, 2007 (2006: HK\$37 million). The decrease was attributable to the sharing of losses from 網通寬帶網絡有限責任公司.

### Taxation

Taxation expenses for the year ended December 31, 2007 increased by 5% to HK\$970 million and the Group's effective tax rate for the year ended December 31, 2007 was 35% (2006: 36%). This rate is higher than the statutory tax rate of 17.5%, mainly due to the fact that losses of some companies cannot be offset against profits of other companies for Hong Kong tax purposes and the disallowance of financing costs relating to the financing of non-income-producing assets. Excluding these factors, the Group would have an effective tax rate around the statutory tax rate of 17.5%.

### Minority Interests

Minority interests of HK\$334 million primarily represented the net profit attributable to the minority shareholders of PCPD.

### Profit Attributable to Equity Holders of the Company

Profit attributable to equity holders of the Company for the year ended December 31, 2007 increased by 20% to HK\$1,503 million (2006: HK\$1,252 million).

### LIQUIDITY AND CAPITAL RESOURCES

The Group's gross debt<sup>6</sup> totaled HK\$25,774 million as at December 31, 2007 (2006: HK\$28,977 million). Cash and cash equivalents decreased to HK\$3,678 million (2006: HK\$4,951 million). The Group's net debt<sup>6</sup> was HK\$21,990 million as at December 31, 2007 compared to HK\$19,725 million as at December 31, 2006. The increase in net debt was mainly due to cash invested in property development projects, and investments made by the Group during the year.

The Group continued to prudently manage its debt profile. On January 24, 2007, the Group exercised an option under the US\$456 million 7.88% guaranteed notes due 2013 and redeemed the notes in full prior to its maturity. On January 29, 2007, the Group further redeemed in full the US\$450 million 1% guaranteed convertible bonds upon maturity.

As at December 31, 2007, the Group had a total of HK\$16,972 million in committed banking facilities available for liquidity, of which HK\$6,798 million remained undrawn.

The Cyberport project continued to generate surplus proceeds from the sale of Bel-Air units. Through proceeds received primarily from the Cyberport project, PCPD fully repaid the Cyberport loan of HK\$4,827 million to the PCCW Group in 2007, of which HK\$1,195 million was repaid in 2007.

The Group's gross debt<sup>6</sup> to total assets improved to 50% as at December 31, 2007 (2006: 59%).

### Credit Ratings of PCCW-HKT Telephone Limited

As at December 31, 2007, PCCW-HKT Telephone Limited ("HKTC"), an indirect wholly-owned subsidiary of the Company, had investment grade ratings with Standard & Poor's Ratings Services (BBB/Positive), Moody's Investors Service (Baa2/Positive) and Fitch Ratings (BBB+/Stable).

### CAPITAL EXPENDITURE<sup>7</sup>

Group capital expenditure for the year ended December 31, 2007 decreased to HK\$3,238 million (2006: HK\$3,366 million). Further investments to upgrade our new generation network in 2007 were offset by lower investment in our improved mobile network. PCCW will continue to invest prudently, using assessment criteria including internal rate of return, net present value and payback period.

### HEDGING

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

In the normal course of business, the Group enters into forward contracts and other derivative contracts in order to limit its exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions, and all contracts are denominated in currencies of major industrial countries. As at December 31, 2007, all cross currency swap contracts were designated as cash flow hedges for the Group's foreign currency denominated long-term liabilities.

**CHARGE ON ASSETS**

As at December 31, 2007, certain assets of the Group with an aggregate carrying value of HK\$25 million (2006: HK\$119 million) were pledged to secure loans and banking facilities of the Group.

**CONTINGENT LIABILITIES**

| As at December 31,<br>HK\$ million | 2007       | 2006 |
|------------------------------------|------------|------|
| Performance guarantee              | 841        | 611  |
| Others                             | 80         | 29   |
|                                    | <b>921</b> | 640  |

- a. HKTC was in dispute with Hong Kong's Inland Revenue Department (the "IRD") regarding the deductibility of certain finance expenses. The IRD had raised assessments for part of the disputed finance expenses for the years of assessment 2000/01 to 2005/06 on April 21, 2005, February 3, 2006 and February 5, 2007. HKTC had lodged objections to the assessments. The dispute was fully settled in December 2007.
- b. The Group is subject to certain corporate guarantee obligations to guarantee performance of its wholly-owned subsidiaries in the normal course of their businesses. The amount of liabilities arising from such obligations, if any, cannot be ascertained but the Directors are of the opinion that any resulting liability would not materially affect the financial position of the Group.

**HUMAN RESOURCES**

As at December 31, 2007, the Group had approximately 15,800 employees (2006: 14,500). About three quarters of these employees work in Hong Kong and the others are based outside Hong Kong, primarily in mainland China. The Company has established incentive bonus schemes designed to motivate and reward employees at all levels to achieve the Company's business performance targets. Payment of bonuses is generally based on achievement of EBITDA<sup>2</sup> and net profit after tax targets for the Group as a whole, and revenue and EBITDA<sup>2</sup> targets for the Company's individual businesses. The Company also operates a discretionary employee share option scheme and two share award schemes to motivate employee performance to enhance shareholders' value.

**FINAL DIVIDEND**

The Board has recommended the payment of a final dividend of 13.5 HK cents (2006: 12 HK cents) per share for the year ended December 31, 2007 subject to the approval of shareholders of the Company at the forthcoming annual general meeting. An interim dividend of 6.5 HK cents (2006: 6.5 HK cents) per share for the six months ended June 30, 2007 was paid by the Company on October 8, 2007.



# REPORT OF THE DIRECTORS

The directors present their annual report together with the audited consolidated financial statements of PCCW Limited (the “Company”) and its subsidiaries (collectively the “Group”) for the year ended December 31, 2007.

## 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 in the Hong Kong Special Administrative Region (“Hong Kong”), mainland China and elsewhere in the Asia Pacific region; investments in, and development of, systems integration 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 6 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2007 are set out in the accompanying consolidated financial statements on page 83.

An interim dividend of 6.5 HK cents (2006: 6.5 HK cents) per ordinary share, totaling approximately HK\$440 million (2006: HK\$438 million), was paid to shareholders of the Company in October 2007.

The board of directors (the “Board”) recommends the payment of a final dividend of 13.5 HK cents (2006: 12 HK cents) per ordinary share for the year ended December 31, 2007 to shareholders whose names appear on the Register of Members of the Company on May 29, 2008 and payable on or around June 6, 2008. The Register of Members will be closed from May 26, 2008 to May 29, 2008, both days inclusive.

## 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 170.

## SUBSIDIARIES, JOINTLY CONTROLLED COMPANIES AND ASSOCIATES

Particulars of the Company’s principal subsidiaries, jointly controlled companies and associates 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 AND CONVERTIBLE BONDS

Particulars of the Group’s and the Company’s borrowings and convertible bonds 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, 2007, the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover. The aggregate amount of purchases attributable to the Group's five largest suppliers represented less than 30% of the Group's total purchases.

## DIRECTORS

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

### Executive Directors

Li Tzar Kai, Richard *Chairman*

Alexander Anthony Arena *Group Managing Director*

(appointed Group Managing Director on April 30, 2007)

Peter Anthony Allen

Chung Cho Yee, Mico

Lee Chi Hong, Robert

So Chak Kwong, Jack

(resigned on April 30, 2007)

Dr Fan Xingcha

(resigned on July 9, 2007)

### Non-Executive Directors

Sir David Ford, KBE, LVO

Zhang Chunjiang

Zuo Xunsheng *Deputy Chairman*

(appointed on July 9, 2007)

Li Fushen

(appointed on July 9, 2007)

Dr Tian Suning

(resigned on July 9, 2007)

### Independent Non-Executive Directors

Professor Chang Hsin-kang

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

Sir Roger Lobo, CBE, LLD, JP

Aman Mehta

The Hon Raymond George Hardenbergh Seitz

Dr Fung Kwok King, Victor

(retired on May 31, 2007)

In accordance with Articles 92 and 101A of the Company's Articles of Association, Peter A Allen, Zhang Chunjiang, Zuo Xunsheng, Li Fushen and Professor Chang Hsin-kang shall retire from office and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

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

## DIRECTORS' SERVICE CONTRACTS

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

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

As at December 31, 2007, the directors and chief executive of the Company and their associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules:

### 1. Interests in the Company

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

| Name of Director/<br>Chief Executive | Personal<br>interests  | Number of ordinary shares |                            | Other<br>interests           | Number of<br>underlying<br>shares held<br>under equity<br>derivatives | Total         | Percentage<br>of issued<br>share capital |
|--------------------------------------|------------------------|---------------------------|----------------------------|------------------------------|-----------------------------------------------------------------------|---------------|------------------------------------------|
|                                      |                        | Family<br>interests       | Corporate<br>interests     |                              |                                                                       |               |                                          |
| Li Tzar Kai, Richard                 | –                      | –                         | 250,109,824<br>(Note 1(a)) | 1,650,518,335<br>(Note 1(b)) | –                                                                     | 1,900,628,159 | 28.04%                                   |
| Alexander Anthony Arena              | 760,000                | –                         | –                          | –                            | 15,800,200<br>(Note 2)                                                | 16,560,200    | 0.24%                                    |
| Peter Anthony Allen                  | 253,200                | –                         | –                          | –                            | 4,629,200<br>(Note 3)                                                 | 4,882,400     | 0.07%                                    |
| Chung Cho Yee, Mico                  | 1,176,260              | 18,455<br>(Note 4)        | –                          | –                            | 14,390,400<br>(Note 3)                                                | 15,585,115    | 0.23%                                    |
| Lee Chi Hong, Robert                 | 992,600<br>(Note 5(a)) | 511<br>(Note 5(b))        | –                          | –                            | 6,000,000<br>(Note 3)                                                 | 6,993,111     | 0.10%                                    |
| Sir David Ford                       | –                      | –                         | –                          | –                            | 3,000,000<br>(Note 3)                                                 | 3,000,000     | 0.04%                                    |
| Prof Chang Hsin-kang                 | 64,000                 | –                         | –                          | –                            | –                                                                     | 64,000        | 0.001%                                   |
| Dr The Hon Sir Li Kwok Po, David     | 600,000                | –                         | –                          | –                            | –                                                                     | 600,000       | 0.009%                                   |

#### Notes:

1. (a) Of these shares, Pacific Century Diversified Limited ("PCD"), a wholly-owned subsidiary of Chiltonlink Limited, held 216,362,824 shares and Eisner Investments Limited held 33,747,000 shares. Li Tzar Kai, Richard owned 100% of Chiltonlink Limited and Eisner Investments Limited.
- (b) These interests represented:
  - (i) a deemed interest in 36,726,857 shares of the Company held by Yue Shun Limited, a subsidiary of Hutchison Whampoa Limited ("HWL"). Cheung Kong (Holdings) Limited ("Cheung Kong") through certain subsidiaries held more than one-third of the issued share capital of HWL. Li Tzar Kai, Richard was a discretionary beneficiary of certain discretionary trusts which held units in unit trusts which in turn held interests in certain shares of Cheung Kong and HWL. Li Tzar Kai, Richard was also interested in one-third of the issued share capital of two companies, which owned all the shares of the trustee companies which acted as trustees of such discretionary trusts and unit trusts. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 36,726,857 shares of the Company held by Yue Shun Limited;
  - (ii) a deemed interest in 87,018,177 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 87,018,177 shares of the Company held by PCGH; and

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

### 1. Interests in the Company (continued)

**Notes:** (continued)

- (b) (continued)
- (iii) a deemed interest in 1,526,773,301 shares of the Company held by Pacific Century Regional Developments Limited ("PCRD"), a company in which PCGH had, through certain wholly-owned subsidiaries being Anglang Investments Limited, Pacific Century Group (Cayman Islands) Limited, Pacific Century International Limited and Borsington Limited, an aggregate of 75.33% interest. 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 1,526,773,301 shares of the Company held by PCRD.
2. These interests represented Alexander Anthony Arena's beneficial interest in: (a) 200 underlying shares held in the form of 20 American Depositary Receipts which constituted listed equity derivatives; and (b) 15,800,000 underlying shares in respect of share options granted by the Company to Alexander Anthony Arena as beneficial owner, the details of which are set out in the section headed "SHARE OPTION SCHEMES" of this report.
3. These interests represented the interests in underlying shares in respect of share options granted by the Company to these directors as beneficial owners, the details of which are set out in the section headed "SHARE OPTION SCHEMES" of this report.
4. These shares were held by the spouse of Chung Cho Yee, Mico.
5. (a) These shares were held jointly by Lee Chi Hong, Robert and his spouse.
- (b) These shares were held by the spouse of Lee Chi Hong, Robert.

### 2. Interests in Associated Corporation of the Company

The table below sets out the long position in the shares and underlying shares of Pacific Century Premium Developments Limited ("PCPD") held by the director and chief executive of the Company:

| Name of Director/<br>Chief Executive | Personal<br>interests | Number of ordinary shares |                        |   | Other<br>interests | Number of<br>underlying<br>shares held<br>under equity<br>derivatives | Total     | Percentage<br>of issued<br>share capital |
|--------------------------------------|-----------------------|---------------------------|------------------------|---|--------------------|-----------------------------------------------------------------------|-----------|------------------------------------------|
|                                      |                       | Family<br>interests       | Corporate<br>interests |   |                    |                                                                       |           |                                          |
| Chung Cho Yee, Mico                  | –                     | –                         | –                      | – | –                  | 5,000,000                                                             | 5,000,000 | 0.21%                                    |

The above interest represented the interest in underlying shares in respect of share options granted by PCPD to the director and chief executive of the Company as beneficial owner pursuant to PCPD's share option scheme, the details of which are set out in the section headed "SHARE OPTION SCHEMES" of this report.

Save as disclosed in the foregoing, none of the directors or chief executive of the Company or their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code of the Listing Rules as at December 31, 2007.

## SHARE OPTION SCHEMES

### 1. Share Option Schemes of the Company

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

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

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

The maximum number of shares in respect of which options may be granted under the 2004 Scheme shall not in aggregate exceed 10% of the shares of the Company in issue as at the date of approval of such scheme. As at December 31, 2007, the total number of shares of the Company that may be issued upon exercise of all share options granted and yet to be exercised under the 2004 Scheme was 41,275,500, which represented 0.61% of the issued share capital of the Company as at that date. As at December 31, 2007, 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 103,091,271, which represented 1.52% of the issued share capital of the Company as at that date. The maximum entitlement for any eligible person (other than a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates) under the Schemes is that the total number of shares issued and to be issued on exercise of all options granted and to be granted in any 12-month period up to and including the date of the latest grant does not exceed 1% of the shares of the Company in issue at the relevant time. Any further grant of share options in excess of this limit is subject to shareholders’ approval at a general meeting.

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

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

## SHARE OPTION SCHEMES (CONTINUED)

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

Details of the share options outstanding and movements during the year ended December 31, 2007 are as follows:

#### A. 1994 Scheme

##### (1) Outstanding options at January 1, 2007 and at December 31, 2007

| Name or category of participant        | Date<br>of grant<br><i>(Notes 1 &amp; 2)</i> | Vesting<br>period<br><i>(Note 1)</i> | Exercisable<br>period<br><i>(Note 1)</i> | Exercise<br>price HK\$ | Number of options            |                              |
|----------------------------------------|----------------------------------------------|--------------------------------------|------------------------------------------|------------------------|------------------------------|------------------------------|
|                                        |                                              |                                      |                                          |                        | Outstanding at<br>01.01.2007 | Outstanding at<br>12.31.2007 |
|                                        |                                              |                                      |                                          |                        |                              |                              |
| <b>Director/Chief Executive</b>        |                                              |                                      |                                          |                        |                              |                              |
| Alexander Anthony Arena                | 08.28.1999                                   | 08.17.2000 to<br>08.17.2004          | 08.17.2000 to<br>08.17.2009              | 11.7800                | 3,200,000                    | 3,200,000                    |
|                                        | 08.26.2000                                   | 08.26.2001 to<br>08.26.2005          | 08.26.2001 to<br>08.26.2010              | 60.1200                | 1,600,000                    | 1,600,000                    |
|                                        | 02.20.2001                                   | 08.26.2001 to<br>08.26.2005          | 08.26.2001 to<br>01.22.2011              | 16.8400                | 1,600,000                    | 1,600,000                    |
|                                        | 07.25.2003                                   | 07.25.2004 to<br>07.25.2006          | 07.25.2004 to<br>07.23.2013              | 4.3500                 | 6,400,000                    | 6,400,000                    |
| Peter Anthony Allen                    | 08.28.1999                                   | 08.17.2000 to<br>08.17.2002          | 08.17.2000 to<br>08.17.2009              | 11.7800                | 272,000                      | 272,000                      |
|                                        | 08.26.2000                                   | 08.26.2001 to<br>08.26.2005          | 08.26.2001 to<br>08.26.2010              | 60.1200                | 178,600                      | 178,600                      |
|                                        | 02.20.2001                                   | 08.26.2001 to<br>08.26.2005          | 08.26.2001 to<br>01.22.2011              | 16.8400                | 178,600                      | 178,600                      |
|                                        | 07.25.2003                                   | 07.25.2004 to<br>07.25.2006          | 07.25.2004 to<br>07.23.2013              | 4.3500                 | 2,000,000                    | 2,000,000                    |
| Chung Cho Yee, Mico                    | 08.28.1999                                   | 08.17.2000 to<br>08.17.2004          | 08.17.2001 to<br>08.17.2009              | 11.7800                | 3,575,200                    | 3,575,200                    |
|                                        | 08.26.2000                                   | 08.26.2001 to<br>08.26.2005          | 08.26.2001 to<br>08.26.2010              | 60.1200                | 1,060,000                    | 1,060,000                    |
|                                        | 02.20.2001                                   | 08.26.2001 to<br>08.26.2005          | 08.26.2001 to<br>01.22.2011              | 16.8400                | 1,060,000                    | 1,060,000                    |
|                                        | 07.25.2003                                   | 07.25.2004 to<br>07.25.2006          | 07.25.2004 to<br>07.23.2013              | 4.3500                 | 5,695,200                    | 5,695,200                    |
| Lee Chi Hong, Robert                   | 07.25.2003                                   | 07.25.2004 to<br>07.25.2006          | 07.25.2004 to<br>07.23.2013              | 4.3500                 | 5,000,000                    | 5,000,000                    |
| Sir David Ford                         | 07.25.2003                                   | 07.25.2004 to<br>07.25.2006          | 07.25.2004 to<br>07.23.2013              | 4.3500                 | 1,000,000                    | 1,000,000                    |
| So Chak Kwong, Jack<br><i>(Note 8)</i> | 07.25.2003                                   | 07.25.2004 to<br>07.25.2006          | 07.25.2004 to<br>07.23.2013              | 4.3500                 | 12,000,000                   | –                            |

## SHARE OPTION SCHEMES (CONTINUED)

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

## A. 1994 Scheme (continued)

## (1) Outstanding options at January 1, 2007 and at December 31, 2007 (continued)

| Name or category of participant | Date of grant<br>(Notes 1 & 2) | Vesting period<br>(Note 1) | Exercisable period<br>(Note 1) | Exercise price HK\$      | Number of options         |                           |           |
|---------------------------------|--------------------------------|----------------------------|--------------------------------|--------------------------|---------------------------|---------------------------|-----------|
|                                 |                                |                            |                                |                          | Outstanding at 01.01.2007 | Outstanding at 12.31.2007 |           |
| <b>Employees</b>                |                                |                            |                                |                          |                           |                           |           |
| In aggregate                    | 08.17.1999 to 09.15.1999       | (Note 3)                   | 08.17.2000 to 08.17.2009       | 11.7800                  | 6,289,858                 | 5,722,393                 |           |
|                                 | 10.25.1999 to 11.23.1999       | (Note 3)                   | 10.25.2000 to 10.25.2009       | 22.7600                  | 3,184,400                 | 1,724,000                 |           |
|                                 | 02.08.2000 to 03.08.2000       | 02.08.2001 to 02.08.2003   | 02.08.2001 to 02.08.2010       | 75.2400                  | 86,700                    | 86,700                    |           |
|                                 | 08.26.2000 to 09.24.2000       | (Note 4)                   | (Note 4)                       | 60.1200                  | 932,600                   | 911,000                   |           |
|                                 | 10.27.2000 to 11.25.2000       | (Note 5)                   | (Note 5)                       | 24.3600                  | 9,218,282                 | 8,742,906                 |           |
|                                 | 01.22.2001 to 02.20.2001       | (Note 6)                   | (Note 6)                       | 16.8400                  | 7,035,239                 | 5,532,439                 |           |
|                                 | 02.20.2001                     | 02.08.2002 to 02.08.2004   | 02.08.2002 to 02.08.2011       | 18.7600                  | 86,700                    | 86,700                    |           |
|                                 | 04.17.2001 to 05.16.2001       | (Note 7)                   | (Note 7)                       | 10.3000                  | 1,122,560                 | 1,068,840                 |           |
|                                 | 07.16.2001 to 09.15.2001       | 07.16.2002 to 07.16.2004   | 07.16.2002 to 07.16.2011       | 9.1600                   | 272,680                   | 236,320                   |           |
|                                 | 05.10.2002                     | (Note 3)                   | 04.11.2003 to 04.11.2012       | 7.9150                   | 86,700                    | 86,700                    |           |
|                                 | 08.01.2002                     | 08.01.2003 to 08.01.2005   | 08.01.2003 to 07.31.2012       | 8.0600                   | 200,000                   | 200,000                   |           |
|                                 | 11.13.2002                     | 11.13.2003 to 11.13.2005   | 11.13.2003 to 11.12.2012       | 6.1500                   | 6,680,000                 | 6,500,000                 |           |
|                                 | 07.25.2003                     | 07.25.2004 to 07.25.2006   | 07.25.2004 to 07.23.2013       | 4.3500                   | 35,577,675                | 31,816,673                |           |
|                                 | 09.16.2003                     | 09.16.2004 to 09.16.2006   | 09.16.2004 to 09.14.2013       | 4.9000                   | 177,000                   | 157,000                   |           |
|                                 | Others                         | 08.17.1999 to 09.15.1999   | (Note 3)                       | 08.17.2000 to 08.17.2009 | 11.7800                   | 800,000                   | 800,000   |
|                                 |                                | 08.26.2000 to 09.24.2000   | (Note 4)                       | (Note 4)                 | 60.1200                   | 2,800,000                 | 2,800,000 |
| 01.22.2001 to 02.20.2001        |                                | (Note 6)                   | (Note 6)                       | 16.8400                  | 2,800,000                 | 2,800,000                 |           |
| 10.15.2001 to 11.13.2001        |                                | 10.15.2002 to 10.15.2004   | 10.15.2002 to 10.15.2011       | 8.6400                   | 120,000                   | –                         |           |
| 10.11.2002                      |                                | Fully vested on 10.11.2002 | 10.11.2002 to 10.10.2007       | 8.6165                   | 1,200,000                 | –                         |           |
| 07.25.2003                      |                                | 07.25.2004 to 07.25.2006   | 07.25.2004 to 07.23.2013       | 4.3500                   | 3,333,334                 | 1,000,000                 |           |
|                                 |                                |                            |                                |                          |                           |                           |           |

## SHARE OPTION SCHEMES (CONTINUED)

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

#### A. 1994 Scheme (continued)

#### (2) Options exercised during the year ended December 31, 2007

| Name or category of participant | Date of grant<br>(Note 1) | Vesting period<br>(Note 1)  | Exercisable period<br>(Note 1) | Exercise price HK\$ | Number of shares acquired on exercise of options | Weighted average closing price of the shares immediately before the dates on which the options were exercised HK\$ |
|---------------------------------|---------------------------|-----------------------------|--------------------------------|---------------------|--------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|
| <b>Director/Chief Executive</b> |                           |                             |                                |                     |                                                  |                                                                                                                    |
| So Chak Kwong, Jack<br>(Note 8) | 07.25.2003                | 07.25.2004 to<br>07.25.2006 | 07.25.2004 to<br>07.23.2013    | 4.3500              | 12,000,000                                       | 4.7100                                                                                                             |
| <b>Employees</b>                |                           |                             |                                |                     |                                                  |                                                                                                                    |
| In aggregate                    | 07.25.2003                | 07.25.2004 to<br>07.25.2006 | 07.25.2004 to<br>07.23.2013    | 4.3500              | 3,481,002                                        | 4.8945                                                                                                             |
| <b>Others</b>                   | 07.25.2003                | 07.25.2004 to<br>07.25.2006 | 07.25.2004 to<br>07.23.2013    | 4.3500              | 2,333,334                                        | 4.7200                                                                                                             |

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

#### (3) Options cancelled or lapsed during the year ended December 31, 2007

| Name or category of participant | Exercise price HK\$ | Number of options cancelled | Number of options lapsed |
|---------------------------------|---------------------|-----------------------------|--------------------------|
| <b>Employees</b>                |                     |                             |                          |
| In aggregate                    | 11.7800             | —                           | 567,465                  |
|                                 | 22.7600             | —                           | 1,460,400                |
|                                 | 60.1200             | —                           | 21,600                   |
|                                 | 24.3600             | —                           | 475,376                  |
|                                 | 16.8400             | —                           | 1,502,800                |
|                                 | 10.3000             | —                           | 53,720                   |
|                                 | 9.1600              | —                           | 36,360                   |
|                                 | 6.1500              | —                           | 180,000                  |
|                                 | 4.3500              | —                           | 280,000                  |
|                                 | 4.9000              | —                           | 20,000                   |
| <b>Others</b>                   | 8.6400              | —                           | 120,000                  |
|                                 | 8.6165              | —                           | 1,200,000                |

**SHARE OPTION SCHEMES (CONTINUED)****1. Share Option Schemes of the Company (continued)****B. 2004 Scheme****(1) Outstanding options at January 1, 2007 and at December 31, 2007**

| Name or category of participant | Date of grant<br>(Note 1) | Vesting period<br>(Note 1) | Exercisable period<br>(Note 1) | Exercise price HK\$ | Number of options         |                           |
|---------------------------------|---------------------------|----------------------------|--------------------------------|---------------------|---------------------------|---------------------------|
|                                 |                           |                            |                                |                     | Outstanding at 01.01.2007 | Outstanding at 12.31.2007 |
| <b>Director/Chief Executive</b> |                           |                            |                                |                     |                           |                           |
| Alexander Anthony Arena         | 02.08.2005                | 02.08.2006 to 02.08.2007   | 02.08.2006 to 02.07.2009       | 4.4750              | 3,000,000                 | 3,000,000                 |
| Peter Anthony Allen             | 02.08.2005                | 02.08.2006 to 02.08.2007   | 02.08.2006 to 02.07.2009       | 4.4750              | 2,000,000                 | 2,000,000                 |
| Chung Cho Yee, Mico             | 02.08.2005                | 02.08.2006 to 02.08.2007   | 02.08.2006 to 02.07.2009       | 4.4750              | 3,000,000                 | 3,000,000                 |
| Lee Chi Hong, Robert            | 02.08.2005                | 02.08.2006 to 02.08.2007   | 02.08.2006 to 02.07.2009       | 4.4750              | 1,000,000                 | 1,000,000                 |
| Sir David Ford                  | 02.08.2005                | 02.08.2006 to 02.08.2007   | 02.08.2006 to 02.07.2009       | 4.4750              | 2,000,000                 | 2,000,000                 |
| So Chak Kwong, Jack<br>(Note 8) | 02.08.2005                | 02.08.2006 to 02.08.2007   | 02.08.2006 to 02.07.2009       | 4.4750              | 3,500,000                 | –                         |
|                                 | 09.15.2006                | 09.15.2007 to 09.15.2009   | 09.15.2007 to 09.14.2010       | 4.9240              | 25,000,000                | –                         |
| Dr Fan Xingcha<br>(Note 9)      | 09.01.2005                | 09.01.2006 to 09.01.2008   | 09.01.2006 to 08.31.2010       | 5.2500              | 7,000,000                 | –                         |
| <b>Employees</b>                |                           |                            |                                |                     |                           |                           |
| In aggregate                    | 02.08.2005                | 02.08.2006 to 02.08.2007   | 02.08.2006 to 02.07.2009       | 4.4750              | 37,793,500                | 30,275,500                |

**(2) Options granted during the year ended December 31, 2007**

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

The weighted average values per option granted in 2006 estimated at the date of grant using the trinomial option pricing model was HK\$0.95. The weighted average assumptions used are as follows:

|                             | 2007 | 2006      |
|-----------------------------|------|-----------|
| Risk-free interest rate     | –    | 3.94%     |
| Expected life (in years)    | –    | 4.00      |
| Volatility                  | –    | 0.28      |
| Expected dividend per share | –    | HK\$0.185 |

## SHARE OPTION SCHEMES (CONTINUED)

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

#### B. 2004 Scheme (continued)

#### (2) Options granted during the year ended December 31, 2007 (continued)

The trinomial option pricing model was developed for use in estimating the fair value of traded options that are fully transferable. Such an option pricing model requires input of highly subjective assumptions, including the expected stock price volatility. Because the Company's share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the trinomial option pricing model does not necessarily provide a reliable measure of the fair value of the share options.

The accounting policy adopted for the share options is described in note 2(cc)(iii) to the consolidated financial statements.

#### (3) Options exercised during the year ended December 31, 2007

| Name or category of participant | Date of grant<br>(Note 1) | Vesting period<br>(Note 1)  | Exercisable period<br>(Note 1) | Exercise price HK\$ | Number of shares acquired on exercise of options | Weighted average closing price of the shares immediately before the dates on which the options were exercised HK\$ |
|---------------------------------|---------------------------|-----------------------------|--------------------------------|---------------------|--------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|
| <b>Director/Chief Executive</b> |                           |                             |                                |                     |                                                  |                                                                                                                    |
| So Chak Kwong, Jack<br>(Note 8) | 02.08.2005                | 02.08.2006 to<br>02.08.2007 | 02.08.2006 to<br>02.07.2009    | 4.4750              | 3,500,000                                        | 4.7100                                                                                                             |
| <b>Employees</b>                |                           |                             |                                |                     |                                                  |                                                                                                                    |
| In aggregate                    | 02.08.2005                | 02.08.2006 to<br>02.08.2007 | 02.08.2006 to<br>02.07.2009    | 4.4750              | 7,141,500                                        | 4.8563                                                                                                             |

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

#### (4) Options cancelled or lapsed during the year ended December 31, 2007

| Name or category of participant | Exercise price HK\$ | Number of options cancelled | Number of options lapsed |
|---------------------------------|---------------------|-----------------------------|--------------------------|
| <b>Employees</b>                |                     |                             |                          |
| In aggregate                    | 4.475               | —                           | 376,500                  |
|                                 | 5.2500              | —                           | 7,000,000                |
|                                 | 4.9240              | —                           | 25,000,000               |

**SHARE OPTION SCHEMES (CONTINUED)****2. Share Option Schemes of Subsidiaries of the Company****A. PCPD**

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

Details of the share options outstanding under the 2003 PCPD Scheme and movements during the year ended December 31, 2007 are as follows:

**2003 PCPD Scheme****(1) Outstanding options at January 1, 2007 and at December 31, 2007**

| Name or category of participant                | Date of grant<br>(Note 1) | Vesting period<br>(Note 1) | Exercisable period<br>(Note 1) | Exercise price HK\$ | Number of options         |                           |
|------------------------------------------------|---------------------------|----------------------------|--------------------------------|---------------------|---------------------------|---------------------------|
|                                                |                           |                            |                                |                     | Outstanding at 01.01.2007 | Outstanding at 12.31.2007 |
| <b>Director/Chief Executive of the Company</b> |                           |                            |                                |                     |                           |                           |
| Chung Cho Yee, Mico                            | 12.20.2004                | Fully vested on 12.20.2004 | 12.20.2004 to 12.19.2014       | 2.375               | 5,000,000                 | 5,000,000                 |
| So Chak Kwong, Jack<br>(Note 8)                | 12.20.2004                | Fully vested on 12.20.2004 | 12.20.2004 to 12.19.2014       | 2.375               | 5,000,000                 | —                         |

As at December 31, 2007, the total number of shares of PCPD that may be issued upon exercise of all share options granted and yet to be exercised under the 2003 PCPD Scheme was 5,000,000, which represented 0.21% of the issued share capital of PCPD as at that date.

**(2) Options granted during the year ended December 31, 2007**

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

## SHARE OPTION SCHEMES (CONTINUED)

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

#### A. PCPD (continued)

##### 2003 PCPD Scheme (continued)

#### (3) Options exercised during the year ended December 31, 2007

| Name or category of participant | Date of grant<br>(Note 1) | Vesting period<br>(Note 1)    | Exercisable period<br>(Note 1) | Exercise price HK\$ | Number of shares acquired on exercise of options | Weighted average closing price of the shares immediately before the date on which the options were exercised HK\$ |
|---------------------------------|---------------------------|-------------------------------|--------------------------------|---------------------|--------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|
| So Chak Kwong, Jack<br>(Note 8) | 12.20.2004                | Fully vested on<br>12.20.2004 | 12.20.2004 to<br>12.19.2014    | 2.375               | 5,000,000                                        | 2.460                                                                                                             |

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

#### (4) Options cancelled or lapsed during the year ended December 31, 2007

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.

#### B. SUNDAY Communications Limited (Company dissolved on March 30, 2007) ("SUNDAY")

SUNDAY, which was an indirect non wholly-owned subsidiary of the Company, adopted a share option scheme on March 1, 2000 (the "2000 SUNDAY Scheme"). On May 22, 2002, the shareholders of SUNDAY approved the adoption of a new share option scheme (the "2002 SUNDAY Scheme") and termination of the 2000 SUNDAY Scheme. On termination of the 2000 SUNDAY Scheme, no further share options had been granted thereunder. No share options were outstanding under the 2000 SUNDAY Scheme since August 9, 2005. The board of directors of SUNDAY could, at its discretion, grant share options to any eligible person to subscribe for shares of SUNDAY subject to the terms and conditions stipulated in the 2002 SUNDAY Scheme. No share options had been granted under the 2002 SUNDAY Scheme since its adoption. The 2002 SUNDAY Scheme was terminated upon completion of the voluntary liquidation of SUNDAY on March 30, 2007.

#### Notes:

- All dates are shown month/day/year.
- Due to the large number of employees participating in the 1994 Scheme, certain information such as the date of grant can only be shown within a reasonable range in this report. For options granted to employees, the options were granted, where applicable, during the underlying periods for acceptance of the offer of such options by the employees concerned.
- These options vest in installments during a period starting from the first anniversary of the offer date of such options (the "Offer Date") and ending on either the third or fifth anniversary of the Offer Date inclusive.
- These options vest in installments during a period starting from: (i) May 26, 2001 and ending on May 26, 2003 inclusive; (ii) the first anniversary of the Offer Date and ending on the third anniversary of the Offer Date inclusive; or (iii) the first anniversary of the Offer Date and ending on the fifth anniversary of the Offer Date inclusive. All these options are exercisable in installments from the commencement of the relevant vesting period until the tenth anniversary of the Offer Date.
- These options vest in installments during a period starting from: (i) March 15, 2001 and ending on March 15, 2005 inclusive; or (ii) the first anniversary of the Offer Date and ending on the third anniversary of the Offer Date inclusive. All these options are exercisable in installments from the commencement of the relevant vesting period until the tenth anniversary of the Offer Date.

**SHARE OPTION SCHEMES (CONTINUED)****Notes:** (continued)

6. These options vest in installments during a period starting from: (i) dates ranging between the date of grant to August 26, 2001 and ending on dates ranging between December 7, 2002 to August 26, 2005 inclusive; (ii) the first anniversary of the Offer Date and ending on the third anniversary of the Offer Date inclusive; or (iii) the first anniversary of the Offer Date and ending on the fifth anniversary of the Offer Date inclusive. All these options are exercisable in installments from the commencement of the relevant vesting period until the tenth anniversary of the Offer Date.
7. These options vest in installments during a period starting from: (i) May 26, 2001 and ending on May 26, 2005 inclusive; (ii) the first anniversary of the Offer Date and ending on the third anniversary of the Offer Date inclusive; or (iii) the first anniversary of the Offer Date and ending on the fifth anniversary of the Offer Date inclusive. All these options are exercisable in installments from the commencement of the relevant vesting period until the tenth anniversary of the Offer Date.
8. So Chak Kwong, Jack resigned as an Executive Director, Deputy Chairman and Group Managing Director of the Company with effect from April 30, 2007.
9. Dr Fan Xingcha resigned as an Executive Director of the Company with effect from July 9, 2007.

**SHARE AWARD SCHEMES**

In 2002, the Company established two employee share incentive award schemes, namely the Purchase Scheme and the Subscription Scheme, under which employees of participating subsidiaries of the Company (excluding directors of the Company) may be selected to participate in such schemes. Subject to the relevant scheme rules, each scheme provides that following the making of an award to an employee, the relevant shares are held in trust for that employee and then shall vest over a period of time provided that the employee remains an employee of the applicable subsidiary of the Company at the relevant time and satisfies any other conditions specified at the time the award is made. In May 2006, the rules of the Purchase Scheme were altered such that the directors of the Company are also eligible to participate in such scheme. During the year ended December 31, 2007, no awards have been made to any directors and employees of the Company or its subsidiaries under these two schemes.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangement that may enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors or chief executive of the Company or their spouses or children under 18 years of age had any right to subscribe for equity or debt securities of the Company or any of its associated corporations or had exercised any such right during the year.

**INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS**

As at December 31, 2007, the following persons (other than any directors or chief executive of the Company) were substantial shareholders of the Company (as defined in the Listing Rules) and had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

| Name of shareholder                                             | Note | Number of<br>shares/underlying<br>shares held | Percentage<br>of issued<br>share capital |
|-----------------------------------------------------------------|------|-----------------------------------------------|------------------------------------------|
| <b>Interests</b>                                                |      |                                               |                                          |
| PCRD                                                            |      | 1,526,773,301                                 | 22.52%                                   |
| PCGH                                                            | 1    | 1,613,791,478                                 | 23.81%                                   |
| Star Ocean Ultimate Limited                                     | 2    | 1,613,791,478                                 | 23.81%                                   |
| The Ocean Trust                                                 | 2    | 1,613,791,478                                 | 23.81%                                   |
| The Starlite Trust                                              | 2    | 1,613,791,478                                 | 23.81%                                   |
| OS Holdings Limited                                             | 2    | 1,613,791,478                                 | 23.81%                                   |
| Ocean Star Management Limited                                   | 2    | 1,613,791,478                                 | 23.81%                                   |
| The Ocean Unit Trust                                            | 2    | 1,613,791,478                                 | 23.81%                                   |
| The Starlite Unit Trust                                         | 2    | 1,613,791,478                                 | 23.81%                                   |
| China Network Communications Group Corporation ("China Netcom") | 3    | 1,343,571,766                                 | 19.82%                                   |

## INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS (CONTINUED)

### Notes:

1. These interests represented (i) PCGH's beneficial interests in 87,018,177 shares; and (ii) PCGH's interests through its controlled corporations (being its wholly-owned subsidiaries, Borsington Limited, Pacific Century International Limited, Pacific Century Group (Cayman Islands) Limited and Anglang Investments Limited, which together controlled 75.33% of PCRD) in 1,526,773,301 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. China Netcom indirectly holds these interests through its indirect wholly-owned subsidiary China Netcom Corporation (BVI) Limited.

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

As at December 31, 2007, the following person (not being the director or chief executive or substantial shareholder (as disclosed in the previous section headed "INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS") of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

| Name of shareholder                      |      | Number of<br>shares/underlying<br>shares held | Percentage<br>of issued<br>share capital |
|------------------------------------------|------|-----------------------------------------------|------------------------------------------|
| <b>Interests</b>                         |      |                                               |                                          |
| Ocean Star Investment Management Limited | Note | 1,613,791,478                                 | 23.81%                                   |

### Note:

Ocean Star Investment Management Limited was deemed interested under the SFO in the shares of the Company by virtue of it being the investment manager of The Ocean Unit Trust and The Starlite Unit Trust which together held 100% of PCGH (see the Notes to the previous section headed "INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS").

Save as disclosed above in this section and the previous section headed "INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS", the Company had not been notified of any other persons (other than any directors or chief executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at December 31, 2007.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

**DIRECTORS' INTERESTS IN COMPETING BUSINESS**

The interests of the directors of the Company in competing business as at December 31, 2007 required to be disclosed pursuant to Rule 8.10 of the Listing Rules were as follows:

| Name of Director                         | Name of company                                                                                           | Nature of business                                                                                                                                 | Nature of interests                                                                                                    |
|------------------------------------------|-----------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|
| Li Tzar Kai, Richard                     | Cheung Kong and its subsidiaries (the "Cheung Kong Group")                                                | Property development and investment, hotel and serviced suite operation, property and project management and investment in securities              | Deemed interests in Cheung Kong ( <i>Note 1</i> )                                                                      |
|                                          | HWL and its subsidiaries (the "Hutchison Group")                                                          | Ports and related services, property and hotels, retail and manufacturing, energy, infrastructure, finance and investments, and telecommunications | Certain personal and deemed interests in HWL ( <i>Note 2</i> )                                                         |
| Chung Cho Yee, Mico<br>( <i>Note 3</i> ) | Capital Strategic Investment Limited ("CSI") and its subsidiaries                                         | Property investment and securities investment                                                                                                      | Non-Executive Chairman and beneficial owner of 35.69% of CSI                                                           |
| Zhang Chunjiang                          | China Netcom and its subsidiaries including China Netcom Group Corporation (Hong Kong) Limited ("CNC HK") | ( <i>Note 4</i> )                                                                                                                                  | Chairman of China Netcom and Chairman and Executive Director of CNC HK                                                 |
| Zuo Xunsheng                             | China Netcom and its subsidiaries including CNC HK                                                        | ( <i>Note 4</i> )                                                                                                                                  | Vice President of China Netcom and Executive Director and Chief Executive Officer of CNC HK                            |
| Li Fushen                                | China Netcom and its subsidiaries including CNC HK                                                        | ( <i>Note 4</i> )                                                                                                                                  | Chief Accountant of China Netcom and Executive Director, Chief Financial Officer and Joint Company Secretary of CNC HK |

## DIRECTORS' INTERESTS IN COMPETING BUSINESS (CONTINUED)

In addition, Li Tzar Kai, Richard, Peter A Allen and Lee Chi Hong, Robert are directors of certain private companies (the "Private Companies"), which are engaged in property development and investment in Hong Kong and Japan. Alexander Anthony Arena was a director of the Private Companies during the year ended December 31, 2007, and has resigned from his directorship during the year.

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

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, the Asia Pacific region, including Vietnam are also unlikely to compete with the existing business of the Group.

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

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

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

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

### Notes:

1. Certain businesses of the Cheung Kong Group may compete with certain aspects of the business of the Group. Li Tzar Kai, Richard is one of the discretionary beneficiaries of certain discretionary trusts which hold units in unit trusts which in turn are interested in certain shares of Cheung Kong. Li Tzar Kai, Richard holds one-third of the issued share capital of two companies, which own all the shares in the trustee companies which act as trustees of such discretionary trusts and unit trusts. These trustee companies perform their functions as trustees independently without any reference to Li Tzar Kai, Richard. In view of the above, the Company considers that Li Tzar Kai, Richard is not able to exert control or influence over the Cheung Kong Group.
2. Li Tzar Kai, Richard was a director of HWL and certain of its subsidiaries until August 16, 2000, the day before the acquisition of Cable & Wireless HKT Limited (now known as PCCW-HKT Limited) became effective. Certain businesses of the Hutchison Group compete with certain aspects of the business of the Group. Li Tzar Kai, Richard has a personal interest in 110,000 shares in HWL, and is one of the discretionary beneficiaries of certain discretionary trusts which hold units in unit trusts which in turn are interested in certain shares of HWL. Li Tzar Kai, Richard holds one-third of the issued share capital of two companies, which own all the shares in the trustee companies which act as trustees of such discretionary trusts and unit trusts. These trustee companies perform their functions as trustees independently without any reference to Li Tzar Kai, Richard. In view of the above, the Company considers that Li Tzar Kai, Richard is not able to exert control or influence over the Hutchison Group.
3. Chung Cho Yee, Mico holds direct personal interest in a private company, which engages in property investment or development in Repulse Bay, Hong Kong.
4. China Netcom is a state-owned enterprise established under the laws of the PRC. It is engaged principally in the provision of telecommunications services in the PRC and is the holder of more than 70% of CNC HK, whose shares are listed and traded on the Stock Exchange. CNC HK provides fixed-line telecommunications services including fixed-line telephone services, broadband and other Internet-related services, business and data communications services, and international telecommunications services in the PRC and the Asia-Pacific region.

## CHARITABLE DONATIONS

During the year, the Group made charitable donations of approximately HK\$0.003 million (2006: HK\$0.1 million).

## POST BALANCE SHEET EVENT

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

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the listed securities of the Company.

## CONTINUING CONNECTED TRANSACTIONS

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

### 1. China Telecommunications Corporation (“China Telecom”) and its subsidiaries and associates (collectively the “CTC Group”)

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

The Group from time to time enters into transactions with the CTC Group (the “CTC Transactions”) relating to the acquisition and provision of certain information technology services and products. These transactions constitute continuing connected transactions of the Company under the Listing Rules.

As referred to in the Company’s announcement dated February 15, 2007 (the “CTC Announcement”), the Company set an annual cap for each of the following categories of transactions for each of the three financial years ending December 31, 2009 based on the nature of the transactions from time to time entered into with the CTC Group:

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

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

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

During the year 2007, PCCW-HKT Telephone Limited, an indirect wholly-owned subsidiary of the Company, entered into a managed fibre services contract (the “Managed Fibre Services Contract”) with China Telecom (Hong Kong) International Limited, a subsidiary of the CTC Group, with duration exceeding three years which is of a similar nature as those under the IRU Contracts. The Managed Fibre Services Contract is categorized as data services (as mentioned above) and is part of the normal commercial services of the Group. Access Capital Limited, the independent financial adviser appointed in accordance with the Listing Rules, is of the view that it is (i) essential to safeguard the interests of the Company and its shareholders to enter into the Managed Fibre Services Contract with duration exceeding three years; and (ii) normal business practice for the provision of data services relating to the Managed Fibre Services Contract to be of a duration exceeding three years and be for a term up to 15 years.

## CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

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

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

| Category                                                                    | Approximate<br>aggregate value<br>for the financial<br>year ended<br>December 31, 2007<br>(HK\$'000) | Annual cap<br>for the CTC Group<br>for the financial<br>year ended<br>December 31, 2007<br>(HK\$'000) |
|-----------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|
| (1) Provision of data services by the Group to the CTC Group                | 3,512                                                                                                | 35,000                                                                                                |
| (2) Provision of data services by the CTC Group to the Group                | 91,345                                                                                               | 150,000                                                                                               |
| (3) Provision of systems integration services by the Group to the CTC Group | 474,762                                                                                              | 562,000                                                                                               |

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

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

The Group from time to time enters into transactions with the CNC Group (the "CNC Transactions") relating to the acquisition and provision of certain information technology services and products. These transactions constitute continuing connected transactions of the Company under the Listing Rules.

As referred to in the Company's announcements dated August 12, 2005 and April 12, 2006 (collectively the "CNC Announcements"), the Company set an annual cap for each of the following categories of transactions for the financial year ended December 31, 2007 based on the nature of transactions from time to time entered into with the CNC Group:

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

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

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

On January 4, 2008, the Company made an announcement regarding the setting of an annual cap for each of the above three categories of the CNC Transactions for each of the three financial years ending December 31, 2010 based on the nature of the transactions from time to time entered into with the CNC Group.

**CONTINUING CONNECTED TRANSACTIONS (CONTINUED)****2. China Network Communications Group Corporation ("China Netcom") and its subsidiaries and associates (collectively the "CNC Group") (continued)**

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

| Category                                                                    | Approximate<br>aggregate value<br>for the financial<br>year ended<br>December 31, 2007<br>(HK\$'000) | Annual cap<br>for the CNC Group<br>for the financial<br>year ended<br>December 31, 2007<br>(HK\$'000) |
|-----------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|
| (1) Provision of data services by the Group to the CNC Group                | 29,294                                                                                               | 350,000                                                                                               |
| (2) Provision of data services by the CNC Group to the Group                | 82,226                                                                                               | 290,000                                                                                               |
| (3) Provision of systems integration services by the Group to the CNC Group | 43,988                                                                                               | 400,000                                                                                               |

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

The Company has engaged the auditor of the Company to conduct a review of the CTC Transactions and the CNC Transactions entered into by the Group for the year ended December 31, 2007. The auditor has reported their factual findings to the Board.

The Board, including the independent non-executive directors of the Company, has reviewed and confirmed that the CTC Transactions and the CNC Transactions for the year ended December 31, 2007 were entered into:

- (i) in the ordinary and usual course of the business of the Group;
- (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or 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.

In addition, the auditor of the Company confirmed to the Board in writing that for the year ended December 31, 2007, the CTC Transactions and the CNC Transactions:

- (i) were approved by the Board;
- (ii) were in accordance with the pricing policies of the Group if the CTC Transactions and the CNC Transactions involve the provision of goods or services by the Group;
- (iii) were entered into in accordance with the relevant agreements governing the CTC Transactions and the CNC Transactions; and
- (iv) did not exceed the respective annual caps of the CTC Transactions and the CNC Transactions disclosed in the Company's previous announcements.

## CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

### 4. Lease and facility and management services agreement with China Netcom

On January 4, 2008, 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 Netcom with duration exceeding three years. CNC GD will lease to PCCW GZ an area for use as a service centre and provide PCCW GZ with facility and management services in respect of certain area in CNC Science Town Telecommunications Hub Building situated in the Guangzhou Science Town, Guangdong Province, the PRC. As disclosed in the Company’s announcement dated January 4, 2008, Access Capital Limited, the independent financial adviser appointed in accordance with the Listing Rules, is 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.

## RELATED PARTY TRANSACTIONS

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

## PUBLIC FLOAT

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

## AUDITOR

The financial statements for the financial year ended December 31, 2007 have been audited by PricewaterhouseCoopers who will retire on conclusion of the forthcoming annual general meeting of the Company. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Philana WY Poon**

*Group General Counsel and Company Secretary*

Hong Kong, March 6, 2008

# INDEPENDENT AUDITOR'S REPORT



羅兵咸永道會計師事務所

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

## TO THE SHAREHOLDERS OF PCCW LIMITED

*(Incorporated in Hong Kong with limited liability)*

We have audited the consolidated financial statements of PCCW Limited (the "Company") and its subsidiaries (collectively the "Group") set out on pages 83 to 169, which comprise the consolidated and company balance sheets as at December 31, 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Directors' responsibility for the financial statements

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

### Auditor's responsibility

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

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

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

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

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at December 31, 2007 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, March 6, 2008

# CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2007

| In HK\$ million (except for earnings per share)                              | Note(s) | 2007               | 2006<br>(Note 45) |
|------------------------------------------------------------------------------|---------|--------------------|-------------------|
| Turnover                                                                     | 5 & 6   | <b>23,715</b>      | 25,637            |
| Cost of sales                                                                |         | <b>(10,538)</b>    | (12,973)          |
| General and administrative expenses                                          |         | <b>(9,144)</b>     | (8,904)           |
| Other (losses)/gains, net                                                    | 7       | <b>(3)</b>         | 42                |
| Losses on property, plant and equipment                                      | 8       | <b>(7)</b>         | (11)              |
| Interest income                                                              |         | <b>429</b>         | 732               |
| Finance costs                                                                | 10      | <b>(1,658)</b>     | (2,008)           |
| Share of results of associates                                               |         | <b>25</b>          | 37                |
| Share of results of jointly controlled companies                             |         | <b>(12)</b>        | –                 |
| Profit before taxation                                                       | 9       | <b>2,807</b>       | 2,552             |
| Income tax                                                                   | 12(a)   | <b>(970)</b>       | (920)             |
| Profit for the year                                                          | 6(a)    | <b>1,837</b>       | 1,632             |
| Attributable to:                                                             |         |                    |                   |
| Equity holders of the Company                                                |         | <b>1,503</b>       | 1,252             |
| Minority interests                                                           |         | <b>334</b>         | 380               |
| Profit for the year                                                          |         | <b>1,837</b>       | 1,632             |
| Dividends payable to equity holders of the Company attributable to the year: | 14(a)   |                    |                   |
| Interim dividend declared and paid during the year                           |         | <b>440</b>         | 438               |
| Final dividend proposed after the balance sheet date                         |         | <b>915</b>         | 811               |
|                                                                              |         | <b>1,355</b>       | 1,249             |
| Earnings per share                                                           | 15      |                    |                   |
| Basic                                                                        |         | <b>22.21 cents</b> | 18.59 cents       |
| Diluted                                                                      |         | <b>22.18 cents</b> | 18.54 cents       |

The notes on pages 90 to 169 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2007

In HK\$ million

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

In HK\$ million

|                                                                                 |            | 2006                                          |                    |              |
|---------------------------------------------------------------------------------|------------|-----------------------------------------------|--------------------|--------------|
|                                                                                 | Note(s)    | Attributable to equity holders of the Company | Minority interests | Total equity |
| <b>At January 1, 2006</b>                                                       |            | 610                                           | 2,122              | 2,732        |
| Translation exchange differences                                                | 33         | 142                                           | 48                 | 190          |
| Available-for-sale financial assets:                                            |            |                                               |                    |              |
| – changes in fair value                                                         | 33         | 78                                            | –                  | 78           |
| – transfer to income statement on disposal                                      | 33         | (88)                                          | –                  | (88)         |
| Cash flow hedges:                                                               |            |                                               |                    |              |
| – effective portion of changes in fair value                                    | 33         | (428)                                         | –                  | (428)        |
| – transfer from equity to income statement                                      | 33         | (19)                                          | –                  | (19)         |
| Net (expense)/income recognized directly in equity                              |            | (315)                                         | 48                 | (267)        |
| Profit for the year                                                             |            | 1,252                                         | 380                | 1,632        |
| <b>Total recognized income and expense for the year</b>                         |            | 937                                           | 428                | 1,365        |
| Exercise of employee share options                                              |            | 119                                           | –                  | 119          |
| Employee share-based compensation                                               | 33         | 47                                            | (2)                | 45           |
| Forfeiture of lapsed shares under share award schemes                           | 33         | (13)                                          | –                  | (13)         |
| Purchase of shares under share award schemes                                    | 33         | (24)                                          | –                  | (24)         |
| <b>Movements in equity arising from capital transactions</b>                    |            | 129                                           | (2)                | 127          |
| Dividend paid in respect of the previous year                                   | 14(b) & 33 | (808)                                         | –                  | (808)        |
| Dividend declared and paid in respect of the current year                       | 14(a) & 33 | (438)                                         | –                  | (438)        |
| Dividends paid to minority shareholders of a subsidiary                         |            | –                                             | (64)               | (64)         |
| Decrease in minority interests arising from increase in holding in a subsidiary |            | –                                             | (15)               | (15)         |
|                                                                                 |            | (1,246)                                       | (79)               | (1,325)      |
| <b>At December 31, 2006</b>                                                     |            | 430                                           | 2,469              | 2,899        |

The notes on pages 90 to 169 form part of these consolidated financial statements.

# CONSOLIDATED BALANCE SHEET

As at December 31, 2007

| In HK\$ million                                                        | Note  | 2007            | 2006<br>(Note 45) |
|------------------------------------------------------------------------|-------|-----------------|-------------------|
| <b>ASSETS AND LIABILITIES</b>                                          |       |                 |                   |
| <b>Non-current assets</b>                                              |       |                 |                   |
| Property, plant and equipment                                          | 16    | 16,852          | 16,497            |
| Investment properties                                                  | 17    | 3,920           | 3,639             |
| Interests in leasehold land                                            | 18    | 615             | 1,140             |
| Properties held for/under development                                  | 19    | 1,671           | 2,039             |
| Goodwill                                                               | 20    | 3,016           | 3,140             |
| Intangible assets                                                      | 21    | 1,638           | 1,349             |
| Interest in associates                                                 | 23    | 655             | 637               |
| Interest in jointly controlled companies                               | 24    | 316             | 10                |
| Held-to-maturity investments                                           | 25    | 6               | 12                |
| Available-for-sale financial assets                                    | 25(a) | 321             | 496               |
| Amounts due from related companies                                     | 4(d)  | 9               | 16                |
| Net lease payments receivable                                          | 36    | 91              | 203               |
| Deferred tax assets                                                    | 34(a) | 216             | 174               |
| Other non-current assets                                               |       | 471             | 359               |
|                                                                        |       | <b>29,797</b>   | 29,711            |
| <b>Current assets</b>                                                  |       |                 |                   |
| Properties under development                                           | 19    | 8,436           | 1,231             |
| Properties for sale                                                    |       | 697             | 290               |
| Sales proceeds held in stakeholders' accounts                          | 26(a) | 2,425           | 3,472             |
| Restricted cash                                                        | 26(b) | 682             | 5,128             |
| Prepayments, deposits and other current assets                         | 26(c) | 2,007           | 1,361             |
| Inventories                                                            | 26(d) | 854             | 544               |
| Amounts due from related companies                                     | 4(d)  | 16              | 44                |
| Derivative financial instruments                                       | 29    | 43              | –                 |
| Financial assets at fair value through profit or loss                  | 25(b) | 12              | 50                |
| Accounts receivable, net                                               | 26(e) | 2,709           | 2,580             |
| Tax recoverable                                                        |       | 1               | 64                |
| Cash and cash equivalents                                              | 37(d) | 3,678           | 4,951             |
|                                                                        |       | <b>21,560</b>   | 19,715            |
| <b>Current liabilities</b>                                             |       |                 |                   |
| Short-term borrowings                                                  | 26(f) | (10,174)        | (13,995)          |
| Derivative financial instruments                                       | 29    | (13)            | (555)             |
| Accounts payable                                                       | 26(g) | (1,264)         | (1,022)           |
| Accruals and other payables                                            |       | (4,785)         | (4,989)           |
| Amount payable to the Government under the Cyberport Project Agreement | 28    | (5,178)         | (1,914)           |
| Mobile carrier licence fee liabilities                                 | 35    | (67)            | (58)              |
| Amounts due to related companies                                       | 4(d)  | (539)           | (886)             |
| Gross amount due to customers for contract work                        | 26(h) | (7)             | (7)               |
| Advances from customers                                                |       | (3,434)         | (1,437)           |
| Current taxation                                                       |       | (684)           | (794)             |
|                                                                        |       | <b>(26,145)</b> | (25,657)          |
| Net current liabilities                                                |       | <b>(4,585)</b>  | (5,942)           |
| <b>Total assets less current liabilities</b>                           |       | <b>25,212</b>   | 23,769            |

| In HK\$ million                                                        | Note     | 2007         | 2006<br>(Note 45) |
|------------------------------------------------------------------------|----------|--------------|-------------------|
| <b>Non-current liabilities</b>                                         |          |              |                   |
| Long-term borrowings                                                   | 27       | (15,505)     | (15,438)          |
| Deferred tax liabilities                                               | 34(a)    | (2,150)      | (2,179)           |
| Deferred income                                                        |          | (719)        | (1,015)           |
| Defined benefit liability                                              | 31(a)(i) | (9)          | (11)              |
| Amount payable to the Government under the Cyberport Project Agreement | 28       | (1,741)      | (1,591)           |
| Mobile carrier licence fee liabilities                                 | 35       | (532)        | (539)             |
| Other long-term liabilities                                            |          | (205)        | (97)              |
|                                                                        |          | (20,861)     | (20,870)          |
| <b>Net assets</b>                                                      |          | <b>4,351</b> | <b>2,899</b>      |
| <b>CAPITAL AND RESERVES</b>                                            |          |              |                   |
| Share capital                                                          | 30       | 1,695        | 1,688             |
| Deficit                                                                | 33       | (143)        | (1,258)           |
| <b>Equity attributable to equity holders of the Company</b>            |          | <b>1,552</b> | <b>430</b>        |
| <b>Minority interests</b>                                              |          | <b>2,799</b> | <b>2,469</b>      |
| <b>Total equity</b>                                                    |          | <b>4,351</b> | <b>2,899</b>      |

Approved and authorized for issue by the Board of Directors on March 6, 2008 and signed on behalf of the Board by

**Alexander Anthony Arena**  
Director

**Chung Cho Yee, Mico**  
Director

The notes on pages 90 to 169 form part of these consolidated financial statements.

# BALANCE SHEET

As at December 31, 2007

| In HK\$ million                                | Note  | 2007          | 2006    |
|------------------------------------------------|-------|---------------|---------|
| <b>ASSETS AND LIABILITIES</b>                  |       |               |         |
| <b>Non-current assets</b>                      |       |               |         |
| Property, plant and equipment                  | 16    | 2             | 2       |
| Investments in subsidiaries                    | 22    | 20,301        | 20,469  |
| Other non-current assets                       |       | 12            | 20      |
|                                                |       | <b>20,315</b> | 20,491  |
| <b>Current assets</b>                          |       |               |         |
| Restricted cash                                | 26(b) | 106           | 4,301   |
| Prepayments, deposits and other current assets |       | 13            | 4,145   |
| Amounts due from subsidiaries                  | 22(a) | 35,998        | 12,371  |
| Cash and cash equivalents                      | 37(d) | 36            | 219     |
|                                                |       | <b>36,153</b> | 21,036  |
| <b>Current liabilities</b>                     |       |               |         |
| Short-term borrowings                          | 26(f) | –             | (6,300) |
| Derivative financial instruments               | 29    | –             | (6)     |
| Accruals and other payables                    |       | (8)           | (10)    |
| Current taxation                               |       | (51)          | (51)    |
|                                                |       | <b>(59)</b>   | (6,367) |
| Net current assets                             |       | <b>36,094</b> | 14,669  |
| <b>Total assets less current liabilities</b>   |       | <b>56,409</b> | 35,160  |
| <b>Net assets</b>                              |       | <b>56,409</b> | 35,160  |
| <b>CAPITAL AND RESERVES</b>                    |       |               |         |
| Share capital                                  | 30    | 1,695         | 1,688   |
| Reserves                                       | 33    | 54,714        | 33,472  |
| <b>Total equity</b>                            |       | <b>56,409</b> | 35,160  |

Approved and authorized for issue by the Board of Directors on March 6, 2008 and signed on behalf of the Board by

**Alexander Anthony Arena**  
Director

**Chung Cho Yee, Mico**  
Director

The notes on pages 90 to 169 form part of these consolidated financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2007

| In HK\$ million                                                                                                                    | Note  | 2007           | 2006     |
|------------------------------------------------------------------------------------------------------------------------------------|-------|----------------|----------|
| <b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>                                                                                | 37(a) | <b>5,121</b>   | 6,522    |
| <b>INVESTING ACTIVITIES</b>                                                                                                        |       |                |          |
| Proceeds from disposals of property, plant and equipment, interests in leasehold land, investment properties and other investments |       | 22             | 10       |
| Purchases of property, plant and equipment                                                                                         |       | (3,102)        | (3,175)  |
| Purchases of investment properties                                                                                                 |       | (4)            | (127)    |
| Purchases of other intangible assets                                                                                               |       | (796)          | (237)    |
| Acquisition of the business of a subsidiary (net of cash and cash equivalents acquired)                                            | 37(b) | (23)           | –        |
| Acquisition of interest in a jointly controlled company                                                                            |       | (311)          | –        |
| Purchases of non-controlling interest in subsidiaries                                                                              |       | –              | (494)    |
| Proceeds from disposal of subsidiaries (net of cash and cash equivalents disposed of)                                              | 37(c) | 165            | –        |
| Payments for termination of derivative financial instruments                                                                       |       | (94)           | –        |
| Proceeds from termination of derivative financial instruments                                                                      |       | 72             | 18       |
| Purchases of available-for-sale financial assets                                                                                   |       | (176)          | (37)     |
| Proceeds from disposals of available-for-sale financial assets and held-to-maturity investments                                    |       | 251            | 114      |
| Purchases of financial assets at fair value through profit or loss                                                                 |       | –              | (54)     |
| Proceeds from disposals of financial assets at fair value through profit or loss                                                   |       | 12             | 155      |
| Interest received                                                                                                                  |       | 191            | 63       |
| Dividend received from associates                                                                                                  |       | 10             | 46       |
| Dividend received from investments                                                                                                 |       | –              | 6        |
| Proceeds from termination of finance leases                                                                                        |       | –              | 56       |
| Prepayment for investment in a jointly controlled company                                                                          |       | –              | (8)      |
| Instalments received from the disposal of unconsolidated subsidiaries                                                              |       | 10             | 10       |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                                                                                       |       | <b>(3,773)</b> | (3,654)  |
| <b>FINANCING ACTIVITIES</b>                                                                                                        |       |                |          |
| Proceeds from exercise of employee share options                                                                                   |       | 137            | 119      |
| Purchases of shares under share award schemes                                                                                      |       | –              | (24)     |
| Finance fees incurred for raising debts                                                                                            |       | (5)            | (132)    |
| New loans raised                                                                                                                   |       | 10,278         | 20,518   |
| Interest paid                                                                                                                      |       | (1,748)        | (1,752)  |
| Repayments of loans                                                                                                                |       | (6,417)        | (20,707) |
| Redemption of convertible note and bonds                                                                                           |       | (7,724)        | –        |
| Dividends paid to shareholders of the Company                                                                                      |       | (1,253)        | (1,246)  |
| Dividends paid to minority shareholders of a subsidiary                                                                            |       | (65)           | (64)     |
| Decrease/(Increase) in restricted cash                                                                                             |       | 4,178          | (4,301)  |
| <b>NET CASH USED IN FINANCING ACTIVITIES</b>                                                                                       |       | <b>(2,619)</b> | (7,589)  |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>                                                                                   |       | <b>(1,271)</b> | (4,721)  |
| Exchange differences                                                                                                               |       | (2)            | (7)      |
| <b>CASH AND CASH EQUIVALENTS</b>                                                                                                   |       |                |          |
| Beginning of year                                                                                                                  |       | 4,951          | 9,679    |
| End of year                                                                                                                        | 37(d) | 3,678          | 4,951    |

The notes on pages 90 to 169 form part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

(Amount expressed in Hong Kong dollars unless otherwise stated)

## 1 GENERAL INFORMATION

PCCW Limited (the “Company”) was incorporated in the Hong Kong Special Administrative Region (“Hong Kong”) and its securities have been listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since October 18, 1994. The address of its registered office is 39th Floor, PCCW Tower, TaiKoo Place, 979 King’s Road, Quarry Bay, Hong Kong. The principal activities of the Company and its subsidiaries (collectively the “Group”) are the provision of local, mobile and international telecommunications services, Internet access services, interactive multimedia and pay-TV services, the sale and rental of telecommunications equipment, and the provision of computer, engineering and other technical services in Hong Kong, mainland China and elsewhere in the Asia Pacific region; investments in, and development of, systems integration 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 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

### a. Statement of compliance

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

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

- HKFRS 7 “Financial Instruments: Disclosures”, which requires disclosures on the significance of the Group’s financial instruments and the nature and extent of risks arising from those financial instruments. These disclosures are provided throughout these financial statements, in particular in note 39.
- Amendment to HKAS 1 “Presentation of Financial Statements – Capital Disclosures”, which introduces additional disclosure requirements to provide information about the level of capital and the Group’s objectives, policies and processes for managing capital. These new disclosures are set out in note 38.
- HK(IFRIC)-Int 8 “Scope of HKFRS 2”, which requires HKFRS 2 “Share-based Payment” to be applied to any arrangements in which some or all of the goods received cannot be specifically identified, in particular where equity instruments are issued for consideration which appears to be less than the fair value.
- HK(IFRIC)-Int 9 “Reassessment of Embedded Derivatives”, which requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract, with reassessment only if there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract.
- HK(IFRIC)-Int 10 “Interim Financial Reporting and Impairment”, which prohibits the impairment losses recognized in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date.

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

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

### b. Basis of preparation of the financial statements

The consolidated financial statements for the year ended December 31, 2007 comprise the financial statements of the Company and its subsidiaries, and the Group's interest in associates and jointly controlled companies.

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

- investment properties (see note 2(g));
- financial instruments classified as financial assets at fair value through profit or loss (see note 2(m)(i)) or available-for-sale financial assets (see note 2(m)(iii)); and
- derivative financial instruments (see note 2(o)).

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

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

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

### c. Subsidiaries and minority interests

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

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

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

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

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

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

### c. Subsidiaries and minority interests (continued)

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

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

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

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

### d. Associates

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

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

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

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

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

### e. Jointly controlled companies

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

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

### e. Jointly controlled companies (continued)

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 2(d).

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

### f. Property, plant and equipment

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

- buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 2(h)); and
- other items of plant and equipment.

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

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

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

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

|                           |                                                                                     |
|---------------------------|-------------------------------------------------------------------------------------|
| Land and buildings        | Over the shorter of the unexpired term of land lease and the estimated useful lives |
| Exchange equipment        | 5 to 15 years                                                                       |
| Transmission plant        | 5 to 25 years                                                                       |
| Other plant and equipment | Over the shorter of 2 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.

## 2 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 2(h)) to earn rental income and/or for capital appreciation, and which are not occupied by the companies in the consolidated Group.

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

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

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

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

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

### h. Leased assets

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

#### i. Classification of assets leased to the Group

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

#### ii. Assets leased out under operating leases

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

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

### h. Leased assets (continued)

#### iii. Operating lease charges

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

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

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

### i. Properties held for/under development

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

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

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

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

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

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

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

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

### j. Properties for sale

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

### k. Goodwill

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

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

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

### k. Goodwill (continued)

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. Mobile carrier licence

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

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

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

#### iii. Other intangible assets

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

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

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

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

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

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

### m. Investments in debt and equity securities

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

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

#### i. Financial assets at fair value through profit or loss

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

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

#### ii. Held-to-maturity investments

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

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

#### iii. Available-for-sale financial assets

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

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

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

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

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

### n. Impairment of assets

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

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

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganization;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

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

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

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

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

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

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

### n. Impairment of assets (continued)

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

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognized in respect of accounts receivable, whose recovery is 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 accounts receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in the income statement.

#### ii. Impairment of other assets

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

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

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

#### – Calculation of recoverable amount

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

#### – Recognition of impairment losses

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

#### – Reversals of impairment losses

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

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

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

### n. Impairment of assets (continued)

#### iii. Interim financial reporting and impairment

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

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

### o. Derivative financial instruments

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

### p. Hedging

#### i. Fair value hedge

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

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

#### ii. Cash flow hedge

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

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

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

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

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

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

### q. Programme costs

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

### r. Inventories

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

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

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

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

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

### s. Construction contracts

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

Construction contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognized profits less recognized losses and estimated value of work performed, including progress billing, and are presented in the balance sheet as the "Gross amount due from customers for contract work" (as an asset) or the "Gross amount 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 "Accounts receivable, net".

### t. Trade and other receivables

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

### u. Cash and cash equivalents

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

### v. Trade and other payables

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

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

### w. Borrowings

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

### x. Convertible notes and bonds

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

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

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

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

### y. Provisions and contingent liabilities

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

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

### z. Revenue recognition

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

#### i. Telecommunications and other services

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

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

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

### z. Revenue recognition (continued)

#### i. Telecommunications and other services (continued)

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

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

#### ii. Sales of goods

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

#### iii. Sales of properties

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

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

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

#### iv. Rental income from operating leases

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

#### v. Contract revenue

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

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

#### vi. Interest income

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

#### vii. Commission income

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

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

### z. Revenue recognition (continued)

#### viii. Dividend income

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

#### aa. Borrowing costs

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

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

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

#### bb. Income tax

- i. Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in the income statement except to the extent that they relate to items recognized directly in equity, in which case they are recognized in equity.
- ii. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous year.
- iii. Deferred 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 tax assets also arise from unused tax losses and unused tax credits.

All deferred tax liabilities, and all deferred 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 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 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 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 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 tax asset is realized and the deferred tax liability is settled. Deferred tax assets and liabilities are not discounted.

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

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

### bb. Income tax (continued)

- iv. Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:
- in the case of current 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 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 tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

### cc. Employee benefits

#### i. Short-term employee benefits

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

#### ii. Retirement benefits

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

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

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

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

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

**2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)****cc. Employee benefits (continued)****iii. Share-based payments**

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

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

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

**iv. Termination benefits**

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

**dd. Translation of foreign currencies**

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

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

### dd. Translation of foreign currencies (continued)

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

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

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

### ee. Related parties

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

- i. the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- ii. the Group and the party are subject to common control;
- iii. the party is an associate of the Group or a joint venture in which the Group is a venturer;
- iv. the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- v. the party is a close family member of a party referred to in (i) above or is an entity under the control, joint control or significant influence of such individuals; or
- vi. the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

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

### ff. Segment reporting

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

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

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

### ff. Segment reporting (continued)

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

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

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

## 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

### Key sources of estimation uncertainty

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

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

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

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

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

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

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

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

### 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

#### Key sources of estimation uncertainty (continued)

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

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

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

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

##### iii. Revenue recognition

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

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

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

##### iv. 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 2007 has resulted in the costs of properties sold recorded in the year ended December 31, 2007 being reduced by approximately HK\$388 million.

**3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)****Key sources of estimation uncertainty (continued)****v. Deferred taxation**

While deferred tax liabilities are provided in full on all taxable temporary differences, deferred 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 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 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 tax assets and taxation expense would be made.

**vi. Current tax**

The Group makes a provision for current tax based on estimated income tax liabilities. 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. If the Group considers it probable that these disputes would result in additional tax payments, the most likely amount of the payment will be estimated and adjustments to the tax expenses and tax liabilities will be made accordingly.

**vii. 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 management. 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.

**4 RELATED PARTY TRANSACTIONS**

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

| In HK\$ million                                                                                                                                                   | Note(s) | The Group<br>2007 | 2006 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|-------------------|------|
| Telecommunications service fees, rental charges, facility management services and subcontracting charges received or receivable from a jointly controlled company | a & c   | 123               | 135  |
| Telecommunications service fees and systems integration charges received or receivable from a substantial shareholder                                             | a       | 60                | 98   |
| Telecommunications service fees, outsourcing fees and rental charges paid or payable to a jointly controlled company                                              | a & c   | 848               | 660  |
| Telecommunications service fees paid or payable to a substantial shareholder                                                                                      | a       | 76                | 41   |
| Key management compensation                                                                                                                                       | b       | 124               | 112  |

- 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.

#### 4 RELATED PARTY TRANSACTIONS (CONTINUED)

##### b. Details of key management compensation

| In HK\$ million                                 | The Group |      |
|-------------------------------------------------|-----------|------|
|                                                 | 2007      | 2006 |
| Salaries and other short-term employee benefits | 106       | 82   |
| Post-employment benefits                        | 4         | 4    |
| Share-based compensation                        | 14        | 26   |
|                                                 | 124       | 112  |

##### c. Details of transactions with a jointly controlled company of a subsidiary (the "JV")

On June 17, 2004, the Company and Telstra Corporation Limited ("Telstra") agreed to provide the JV with a revolving working capital loan facility with each of the Company and Telstra contributing up to US\$25 million (approximately HK\$195 million) to this facility. During the years ended December 31, 2007 and 2006, no draw down was made by the JV under this facility and the facility expired on December 31, 2007 (see note 40(c)).

On April 16, 2005, the Company agreed with Telstra and the JV on an operating model under which the JV would operate as an outsourcer of telecommunications network services for the Group and Telstra and its subsidiaries. During the year ended December 31, 2007, the outsourcing fees paid or payable by the Group to the JV, determined on a cost plus basis, were HK\$665 million (2006: HK\$487 million).

##### d. Amounts due from/(to) related companies

Other than as specified in this note, notes 23 and 24 and a United States dollar denominated loan to the parent company of a substantial shareholder in the amount of US\$2 million (approximately HK\$16 million) (2006: US\$7 million (approximately HK\$57 million)) at a fixed interest rate of 4% per annum and with fixed terms of repayment up to 2010, balances with related parties are unsecured, non-interest bearing and have no fixed repayment terms.

#### 5 TURNOVER

| In HK\$ million                                                          | The Group |        |
|--------------------------------------------------------------------------|-----------|--------|
|                                                                          | 2007      | 2006   |
| Telecommunications and other service revenues                            | 18,712    | 16,665 |
| Amounts received and receivable in respect of goods sold                 | 1,948     | 1,773  |
| Amounts received and receivable in respect of properties sold            | 2,797     | 6,950  |
| Amounts received and receivable from the rental of investment properties | 258       | 249    |
|                                                                          | 23,715    | 25,637 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2007

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 6 SEGMENT INFORMATION

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

#### a. Business segments

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

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

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

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

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

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

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

| In HK\$ million                                                 | TSS    |        | TV & Content |       | Mobile |       | PCCW Solutions |       | PCPD  |       | Other Businesses |       | Elimination |         | Consolidated |         |
|-----------------------------------------------------------------|--------|--------|--------------|-------|--------|-------|----------------|-------|-------|-------|------------------|-------|-------------|---------|--------------|---------|
|                                                                 | 2007   | 2006   | 2007         | 2006* | 2007   | 2006  | 2007           | 2006  | 2007  | 2006  | 2007             | 2006* | 2007        | 2006    | 2007         | 2006    |
| <b>REVENUE</b>                                                  |        |        |              |       |        |       |                |       |       |       |                  |       |             |         |              |         |
| External revenue                                                | 16,113 | 14,765 | 1,533        | 988   | 1,468  | 1,236 | 1,294          | 1,128 | 3,069 | 7,195 | 238              | 325   | -           | -       | 23,715       | 25,637  |
| Inter-segment revenue                                           | 523    | 609    | 170          | 14    | -      | -     | 501            | 524   | 65    | 68    | 11               | 3     | (1,270)     | (1,218) | -            | -       |
| Total revenue                                                   | 16,636 | 15,374 | 1,703        | 1,002 | 1,468  | 1,236 | 1,795          | 1,652 | 3,134 | 7,263 | 249              | 328   | (1,270)     | (1,218) | 23,715       | 25,637  |
| <b>RESULTS</b>                                                  |        |        |              |       |        |       |                |       |       |       |                  |       |             |         |              |         |
| Segment results                                                 | 5,322  | 4,950  | (397)        | (439) | (618)  | (701) | 96             | 108   | 715   | 912   | (385)            | (411) | -           | -       | 4,733        | 4,419   |
| Unallocated corporate expenses                                  |        |        |              |       |        |       |                |       |       |       |                  |       |             |         | (710)        | (628)   |
| Interest income                                                 |        |        |              |       |        |       |                |       |       |       |                  |       |             |         | 429          | 732     |
| Finance costs                                                   |        |        |              |       |        |       |                |       |       |       |                  |       |             |         | (1,658)      | (2,008) |
| Share of results of associates and jointly controlled companies | 13     | 37     | -            | -     | -      | -     | -              | -     | -     | -     | -                | -     | -           | -       | 13           | 37      |
| Profit before taxation                                          |        |        |              |       |        |       |                |       |       |       |                  |       |             |         | 2,807        | 2,552   |
| Income tax                                                      |        |        |              |       |        |       |                |       |       |       |                  |       |             |         | (970)        | (920)   |
| Profit for the year                                             |        |        |              |       |        |       |                |       |       |       |                  |       |             |         | 1,837        | 1,632   |

## 6 SEGMENT INFORMATION (CONTINUED)

### a. Business segments (continued)

| In HK\$ million                                                                                                                                                                                 | TSS    |        | TV & Content |       | Mobile |       | PCCW Solutions |      | PCPD   |        | Other Businesses |       | Elimination |      | Consolidated |        |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|--------|--------------|-------|--------|-------|----------------|------|--------|--------|------------------|-------|-------------|------|--------------|--------|
|                                                                                                                                                                                                 | 2007   | 2006*  | 2007         | 2006* | 2007   | 2006  | 2007           | 2006 | 2007   | 2006   | 2007             | 2006* | 2007        | 2006 | 2007         | 2006*  |
| <b>OTHER INFORMATION</b>                                                                                                                                                                        |        |        |              |       |        |       |                |      |        |        |                  |       |             |      |              |        |
| Capital expenditure<br>(including property,<br>plant and equipment,<br>investment properties,<br>interests in leasehold<br>land, intangible assets<br>and goodwill) incurred<br>during the year | 2,301  | 1,963  | 386          | 247   | 851    | 1,427 | 110            | 70   | 44     | 642    | 170              | 181   |             |      |              |        |
| Depreciation and<br>amortization                                                                                                                                                                | 2,125  | 2,033  | 182          | 126   | 614    | 511   | 54             | 42   | 23     | 21     | 204              | 232   |             |      |              |        |
| Impairment losses<br>recognized in<br>income statement                                                                                                                                          | -      | -      | 58           | -     | -      | -     | -              | 1    | 11     | 25     | 66               | 50    |             |      |              |        |
| Significant non-cash<br>expenses (excluding<br>depreciation,<br>amortization and<br>impairment losses)                                                                                          | 123    | 84     | 59           | 28    | 46     | 31    | (9)            | 11   | 36     | -      | -                | 2     |             |      |              |        |
| <b>ASSETS</b>                                                                                                                                                                                   |        |        |              |       |        |       |                |      |        |        |                  |       |             |      |              |        |
| Segment assets                                                                                                                                                                                  | 19,059 | 18,084 | 1,314        | 1,086 | 4,582  | 4,346 | 1,110          | 932  | 18,456 | 12,787 | 1,535            | 1,823 | -           | -    | 46,056       | 39,058 |
| Interests in associates<br>and jointly controlled<br>companies                                                                                                                                  | 961    | 637    | -            | -     | -      | -     | -              | -    | -      | -      | 10               | 10    | -           | -    | 971          | 647    |
| Unallocated corporate<br>assets                                                                                                                                                                 |        |        |              |       |        |       |                |      |        |        |                  |       |             |      | 4,330        | 9,721  |
| Consolidated total assets                                                                                                                                                                       |        |        |              |       |        |       |                |      |        |        |                  |       |             |      | 51,357       | 49,426 |
| <b>LIABILITIES</b>                                                                                                                                                                              |        |        |              |       |        |       |                |      |        |        |                  |       |             |      |              |        |
| Segment liabilities                                                                                                                                                                             | 4,660  | 4,847  | 337          | 242   | 1,188  | 1,216 | 599            | 589  | 10,374 | 5,196  | 378              | 473   | -           | -    | 17,536       | 12,563 |
| Unallocated corporate<br>liabilities                                                                                                                                                            |        |        |              |       |        |       |                |      |        |        |                  |       |             |      | 29,470       | 33,964 |
| Consolidated total<br>liabilities                                                                                                                                                               |        |        |              |       |        |       |                |      |        |        |                  |       |             |      | 47,006       | 46,527 |

\* Certain comparative figures have been restated to conform with the business segment presentation in the current year. The Group's directories business, previously included in Other Businesses, has been reclassified to TV & Content. Certain assets previously included under TSS have been reclassified to TV & Content, Other Businesses and Unallocated Corporate.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2007

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 6 SEGMENT INFORMATION (CONTINUED)

#### b. Geographical segments

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

| In HK\$ million                                    | Revenue from<br>external customers |        | Segment assets |        | Capital expenditure<br>incurred during the year |       |
|----------------------------------------------------|------------------------------------|--------|----------------|--------|-------------------------------------------------|-------|
|                                                    | 2007                               | 2006   | 2007           | 2006   | 2007                                            | 2006  |
| Hong Kong                                          | 21,229                             | 23,506 | 36,346         | 30,875 | 3,614                                           | 3,686 |
| Mainland China (excluding<br>Hong Kong) and Taiwan | 1,691                              | 1,549  | 6,262          | 5,883  | 68                                              | 761   |
| Others                                             | 795                                | 582    | 3,448          | 2,300  | 299                                             | 140   |
|                                                    | 23,715                             | 25,637 | 46,056         | 39,058 | 3,981                                           | 4,587 |

### 7 OTHER (LOSSES)/GAINS, NET

| In HK\$ million                                                                            | The Group |       |
|--------------------------------------------------------------------------------------------|-----------|-------|
|                                                                                            | 2007      | 2006  |
| Net realized gains on disposals of available-for-sale financial assets                     | 79        | 88    |
| Net realized and unrealized gains on financial assets at fair value through profit or loss | 8         | 17    |
| Impairment loss on goodwill                                                                | (58)      | –     |
| Provision for impairment of investments                                                    | (60)      | (40)  |
| Write back of impairment loss on interest in an associate                                  | 1         | –     |
| Provision for rental guarantee (note a)                                                    | (36)      | –     |
| Net realized and unrealized fair value gains/(losses) on derivative financial instruments  | 62        | (110) |
| Fair value gains on investment properties                                                  | 3         | 1     |
| Dividend income                                                                            | –         | 6     |
| Unclaimed dividend payable by a subsidiary written back                                    | 2         | 2     |
| Write back of provision for loss on legal claims                                           | –         | 105   |
| Net gain on cash flow hedging instruments transferred from equity                          | 9         | –     |
| Other impairment loss                                                                      | (20)      | (25)  |
| Others                                                                                     | 7         | (2)   |
|                                                                                            | (3)       | 42    |

a. Under the formal property sale and purchase agreement dated December 21, 2004 in respect of the disposal of PCCW Tower, on completion of the disposal, there is a rental guarantee pursuant to which Partner Link Investments Limited, an indirect wholly-owned subsidiary of PCPD, has undertaken to the purchaser that it would pay a guaranteed net monthly rental of approximately HK\$13.3 million to the purchaser for a period of 5 years commencing from February 8, 2005, i.e. the date following completion of the disposal of PCCW Tower. During the year, the Group recorded a net loss of approximately HK\$27 million, representing the net cash outflow under the rental guarantee. In addition, the Group also made a provision of approximately HK\$9 million in relation to the rental guarantee over the remaining term of the rental guarantee.

## 8 LOSSES ON PROPERTY, PLANT AND EQUIPMENT

| In HK\$ million                                                      | The Group<br>2007 | 2006 |
|----------------------------------------------------------------------|-------------------|------|
| Impairment losses on property, plant and equipment ( <i>note a</i> ) | 5                 | 11   |
| Write-off of projects under construction                             | 2                 | –    |
|                                                                      | 7                 | 11   |

a. Due to technology and market changes in the sectors in which the Group operates, certain of the Group's property, plant and equipment became obsolete. Accordingly, the Group recognized impairment losses of approximately HK\$5 million (2006: HK\$11 million) in the consolidated income statement for the year ended December 31, 2007.

## 9 PROFIT BEFORE TAXATION

Profit before taxation is stated after crediting and charging the following:

### a. Staff costs

| In HK\$ million                                                                  | The Group<br>2007 | 2006<br>(Notes 45) |
|----------------------------------------------------------------------------------|-------------------|--------------------|
| Retirement costs for directors                                                   | 4                 | 4                  |
| Retirement costs for other staff                                                 |                   |                    |
| – pension income for defined benefit retirement schemes ( <i>note 31(a)(v)</i> ) | (2)               | (2)                |
| – contributions to defined contribution retirement scheme                        | 194               | 146                |
|                                                                                  | 196               | 148                |
| Equity-settled share-based payment expenses                                      | 8                 | 47                 |
| Salaries, bonuses and other benefits                                             | 2,581             | 2,608              |
|                                                                                  | 2,785             | 2,803              |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2007

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 9 PROFIT BEFORE TAXATION (CONTINUED)

#### b. Other items

| In HK\$ million                                          | The Group<br>2007 | 2006  |
|----------------------------------------------------------|-------------------|-------|
| Crediting:                                               |                   |       |
| Dividend income from                                     |                   |       |
| – listed investments                                     | –                 | 5     |
| – unlisted investments                                   | –                 | 1     |
| Gain on disposal of property, plant and equipment        | 7                 | –     |
| Gross rental income                                      | 258               | 249   |
| Less: Outgoings                                          | (18)              | (16)  |
| Charging:                                                |                   |       |
| Losses on property, plant and equipment                  | 7                 | 11    |
| Impairment loss for doubtful debts                       | 218               | 106   |
| Provision for inventory obsolescence                     | 1                 | 5     |
| Depreciation of property, plant and equipment            | 2,795             | 2,776 |
| Amortization of land lease premium                       | 30                | 28    |
| Amortization of intangible assets                        | 445               | 232   |
| Cost of inventories sold                                 | 2,188             | 1,932 |
| Cost of properties sold                                  | 1,932             | 5,987 |
| Cost of sales, excluding inventories and properties sold | 6,418             | 5,054 |
| Loss on disposal of property, plant and equipment        | –                 | 25    |
| Exchange losses, net                                     | 49                | 43    |
| Less: Cash flow hedges: transferred from equity          | (57)              | (17)  |
| Auditors' remuneration                                   | 21                | 25    |
| Operating lease rental                                   |                   |       |
| – equipment                                              | 68                | 115   |
| – other assets (including property rentals)              | 479               | 478   |

### 10 FINANCE COSTS

| In HK\$ million                                           | The Group<br>2007 | 2006  |
|-----------------------------------------------------------|-------------------|-------|
| Interest paid/payable for:                                |                   |       |
| Overdrafts and bank loans wholly repayable within 5 years | 563               | 468   |
| Other loans wholly repayable within 5 years               | 656               | 1,101 |
| Other loans not wholly repayable within 5 years           | 424               | 423   |
| Finance charges on mobile carrier licence fee liabilities | 63                | 57    |
| Other borrowing costs                                     | 1                 | 4     |
| Cash flow hedges: transferred from equity                 | (3)               | (2)   |
|                                                           | 1,704             | 2,051 |
| Interest capitalized in property, plant and equipment     | (46)              | (43)  |
|                                                           | 1,658             | 2,008 |

The capitalization rates used to determine the amount of interest eligible for capitalization for the year ranged from 5.78% to 6.41% (2006: 5.60% to 7.02%).

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

#### Notes:

- Bonuses in respect of 2007, paid in 2007 and payable in 2008.
- Excludes remuneration for duties performed for related companies.
- Excludes remuneration for duties performed for related companies.
- Bonus paid by a subsidiary of PCPD.
- Resigned as executive director, Deputy Chairman and Group Managing Director with effect from April 30, 2007.
- Resigned as executive director with effect from July 9, 2007.
- Fee receivable as a non-executive director in 2007 was surrendered to a subsidiary of China Network Communications Group Corporation, in accordance with an arrangement between Zhang Chunjiang and China Network Communications Group Corporation, a substantial shareholder of the Company.
- Appointed as non-executive director with effect from July 9, 2007.
- Fee receivable as a non-executive director in 2007 was surrendered to a subsidiary of China Network Communications Group Corporation, in accordance with an arrangement between Zuo Xunsheng and China Network Communications Group Corporation, a substantial shareholder of the Company.
- Appointed as non-executive director with effect from July 9, 2007.
- Fee receivable as a non-executive director in 2007 was surrendered to a subsidiary of China Network Communications Group Corporation, in accordance with an arrangement between Li Fushen and China Network Communications Group Corporation, a substantial shareholder of the Company.
- Resigned as non-executive director with effect from July 9, 2007.
- Retired as independent non-executive director upon the conclusion of the annual general meeting held on May 31, 2007.
- Resigned as Chairman of Audit Committee upon the conclusion of the board meeting held on November 23, 2007.
- Includes HK\$89,722 fee as Chairman of Audit Committee.
- Appointed as Chairman of Audit Committee upon conclusion of the board meeting held on November 23, 2007.
- Includes HK\$100,000 fee as Chairman of Nomination Committee and HK\$10,685 fee as Chairman of Audit Committee.
- Includes HK\$100,000 fee as Chairman of Remuneration Committee.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2007

(Amount expressed in Hong Kong dollars unless otherwise stated)

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

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

| In HK\$ million                            | The Group<br>2006 |                                           |                      |                                 |
|--------------------------------------------|-------------------|-------------------------------------------|----------------------|---------------------------------|
|                                            | Directors' fees   | Salaries, allowances and benefits in kind | Bonuses <sup>1</sup> | Retirement scheme contributions |
| <b>Executive directors</b>                 |                   |                                           |                      |                                 |
| Li Tzar Kai, Richard                       | –                 | –                                         | –                    | –                               |
| Alexander Anthony Arena                    | –                 | 11.48                                     | 8.83                 | 0.81                            |
| Peter Anthony Allen                        | –                 | 4.08 <sup>2</sup>                         | –                    | 0.52                            |
| Chung Cho Yee, Mico                        | –                 | 2.40 <sup>3</sup>                         | –                    | –                               |
| Lee Chi Hong, Robert                       | –                 | 11.00                                     | 7.27                 | 0.90                            |
| So Chak Kwong, Jack                        | –                 | 16.62                                     | –                    | 0.84                            |
| Dr Fan Xingcha                             | –                 | 6.51                                      | –                    | 0.58                            |
| Yuen Tin Fan, Francis <sup>4</sup>         | –                 | 1.03 <sup>5</sup>                         | –                    | –                               |
| <b>Non-executive directors</b>             |                   |                                           |                      |                                 |
| Sir David Ford                             | –                 | 2.54                                      | 0.12                 | 0.20                            |
| Zhang Chunjiang                            | 0.20 <sup>6</sup> | –                                         | –                    | –                               |
| Dr Tian Suning                             | 0.20              | –                                         | –                    | –                               |
| <b>Independent non-executive directors</b> |                   |                                           |                      |                                 |
| Prof Chang Hsin-kang                       | 0.20              | –                                         | –                    | –                               |
| Dr Fung Kwok King, Victor                  | 0.20              | –                                         | –                    | –                               |
| Dr The Hon Sir Li Kwok Po, David           | 0.20              | –                                         | –                    | –                               |
| Sir Roger Lobo                             | 0.30 <sup>7</sup> | –                                         | –                    | –                               |
| Aman Mehta                                 | 0.30 <sup>8</sup> | 0.52                                      | –                    | –                               |
| The Hon Raymond George Hardenbergh Seitz   | 0.30 <sup>9</sup> | 0.41                                      | –                    | –                               |
|                                            | 1.90              | 56.59                                     | 16.22                | 3.85                            |

#### Notes:

1 Bonuses in respect of 2006, paid in 2006 and payable in 2007.

2 Excludes remuneration for duties performed for related companies.

3 Excludes remuneration for duties performed for related companies.

4 Resigned as executive director with effect from June 5, 2006.

5 Excludes remuneration for duties performed for related companies.

6 Fee receivable as a non-executive director in 2006 was surrendered to a subsidiary of China Network Communications Group Corporation, in accordance with an arrangement between Zhang Chunjiang and China Network Communications Group Corporation, a substantial shareholder of the Company.

7 Includes HK\$100,000 fee as Chairman of Audit Committee.

8 Includes HK\$100,000 fee as Chairman of Nomination Committee.

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

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

## b. Directors' emoluments – share-based compensation

| The Group<br>2007       |                                 |                                                                     |                                                                       |                                                          |                                                               |                                |                             |                             |       |
|-------------------------|---------------------------------|---------------------------------------------------------------------|-----------------------------------------------------------------------|----------------------------------------------------------|---------------------------------------------------------------|--------------------------------|-----------------------------|-----------------------------|-------|
| Grant date              | Exercise price of share options | Number of share options/<br>shares outstanding at beginning of year | Number of share options granted/<br>(lapsed)/<br>awarded/<br>(lapsed) | Number of share options exercised/<br>shares transferred | Number of share options/<br>shares outstanding at end of year | Number of share options vested | Share-based compensation    | Value of shares transferred |       |
|                         |                                 |                                                                     |                                                                       |                                                          |                                                               |                                | charged to income statement |                             |       |
|                         |                                 |                                                                     |                                                                       |                                                          |                                                               |                                | (Note ii)                   |                             |       |
| HK\$                    | HK\$ million                    | HK\$ million                                                        |                                                                       |                                                          |                                                               |                                |                             |                             |       |
| Executive directors     |                                 |                                                                     |                                                                       |                                                          |                                                               |                                |                             |                             |       |
| Alexander Anthony Arena | July 25, 2003                   | 4.3500                                                              | 6,400,000                                                             | –                                                        | –                                                             | 6,400,000                      | 6,400,000                   | –                           | –     |
|                         | February 8, 2005                | 4.4750                                                              | 3,000,000                                                             | –                                                        | –                                                             | 3,000,000                      | 3,000,000                   | 0.08                        | –     |
| Peter Anthony Allen     | July 25, 2003                   | 4.3500                                                              | 2,000,000                                                             | –                                                        | –                                                             | 2,000,000                      | 2,000,000                   | –                           | –     |
|                         | February 8, 2005                | 4.4750                                                              | 2,000,000                                                             | –                                                        | –                                                             | 2,000,000                      | 2,000,000                   | 0.05                        | –     |
| Chung Cho Yee, Mico     | July 25, 2003                   | 4.3500                                                              | 5,695,200                                                             | –                                                        | –                                                             | 5,695,200                      | 5,695,200                   | –                           | –     |
|                         | February 8, 2005                | 4.4750                                                              | 3,000,000                                                             | –                                                        | –                                                             | 3,000,000                      | 3,000,000                   | 0.08                        | –     |
| Lee Chi Hong, Robert    | July 25, 2003                   | 4.3500                                                              | 5,000,000                                                             | –                                                        | –                                                             | 5,000,000                      | 5,000,000                   | –                           | –     |
|                         | February 8, 2005                | 4.4750                                                              | 1,000,000                                                             | –                                                        | –                                                             | 1,000,000                      | 1,000,000                   | 0.03                        | –     |
| So Chak Kwong, Jack     | July 25, 2003                   | 4.3500                                                              | 12,000,000                                                            | –                                                        | (12,000,000)                                                  | –                              | N/A                         | –                           | 6.00  |
|                         | February 8, 2005                | 4.4750                                                              | 3,500,000                                                             | –                                                        | (3,500,000)                                                   | –                              | N/A                         | 0.09                        | 1.31  |
|                         | September 15, 2006              | 4.9240                                                              | 25,000,000                                                            | (25,000,000) <sup>1</sup>                                | –                                                             | –                              | N/A                         | –                           | –     |
|                         | September 15, 2006              | N/A                                                                 | 6,500,000                                                             | (2,519,109) <sup>1</sup>                                 | (3,980,891)                                                   | –                              | N/A                         | 13.12                       | 19.23 |
| Dr Fan Xingcha          | September 1, 2005               | 5.2500                                                              | 7,000,000                                                             | (7,000,000) <sup>2</sup>                                 | –                                                             | –                              | N/A                         | –                           | –     |
| Non-executive director  |                                 |                                                                     |                                                                       |                                                          |                                                               |                                |                             |                             |       |
| Sir David Ford          | July 25, 2003                   | 4.3500                                                              | 1,000,000                                                             | –                                                        | –                                                             | 1,000,000                      | 1,000,000                   | –                           | –     |
|                         | February 8, 2005                | 4.4750                                                              | 2,000,000                                                             | –                                                        | –                                                             | 2,000,000                      | 2,000,000                   | 0.05                        | –     |
|                         |                                 |                                                                     |                                                                       |                                                          |                                                               |                                |                             | 13.50                       | 26.54 |

### Note:

- 1 Upon the resignation as executive director with effect from April 30, 2007, the outstanding share options and shares awarded held in the capacity of director became zero.
- 2 Upon the resignation as executive director with effect from July 9, 2007, the outstanding share options held in the capacity of director became zero.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2007

(Amount expressed in Hong Kong dollars unless otherwise stated)

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

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

|                         |                                 |                                                                  |                                                              | The Group<br>2006                                     |                                                            |                                |                                                                |                                      |       |
|-------------------------|---------------------------------|------------------------------------------------------------------|--------------------------------------------------------------|-------------------------------------------------------|------------------------------------------------------------|--------------------------------|----------------------------------------------------------------|--------------------------------------|-------|
| Grant date              | Exercise price of share options | Number of share options/ shares outstanding at beginning of year | Number of share options granted/ (lapsed)/ awarded/ (lapsed) | Number of share options exercised/ shares transferred | Number of share options/ shares outstanding at end of year | Number of share options vested | Share-based compensation charged to income statement (Note ii) | Value of shares transferred (Note i) |       |
|                         |                                 |                                                                  |                                                              |                                                       |                                                            |                                |                                                                |                                      | HK\$  |
| Executive directors     |                                 |                                                                  |                                                              |                                                       |                                                            |                                |                                                                |                                      |       |
| Alexander Anthony Arena | July 25, 2003                   | 4.3500                                                           | 6,400,000                                                    | –                                                     | –                                                          | 6,400,000                      | 6,400,000                                                      | 1.08                                 | –     |
|                         | February 8, 2005                | 4.4750                                                           | 3,000,000                                                    | –                                                     | –                                                          | 3,000,000                      | 1,500,000                                                      | 0.89                                 | –     |
| Peter Anthony Allen     | July 25, 2003                   | 4.3500                                                           | 2,000,000                                                    | –                                                     | –                                                          | 2,000,000                      | 2,000,000                                                      | 0.33                                 | –     |
|                         | February 8, 2005                | 4.4750                                                           | 2,000,000                                                    | –                                                     | –                                                          | 2,000,000                      | 1,000,000                                                      | 0.60                                 | –     |
| Chung Cho Yee, Mico     | July 25, 2003                   | 4.3500                                                           | 5,695,200                                                    | –                                                     | –                                                          | 5,695,200                      | 5,695,200                                                      | 0.96                                 | –     |
|                         | February 8, 2005                | 4.4750                                                           | 3,000,000                                                    | –                                                     | –                                                          | 3,000,000                      | 1,500,000                                                      | 0.89                                 | –     |
| Lee Chi Hong, Robert    | July 25, 2003                   | 4.3500                                                           | 5,000,000                                                    | –                                                     | –                                                          | 5,000,000                      | 5,000,000                                                      | 0.84                                 | –     |
|                         | February 8, 2005                | 4.4750                                                           | 1,000,000                                                    | –                                                     | –                                                          | 1,000,000                      | 500,000                                                        | 0.30                                 | –     |
| So Chak Kwong, Jack     | July 25, 2003                   | 4.3500                                                           | 12,000,000                                                   | –                                                     | –                                                          | 12,000,000                     | 12,000,000                                                     | 2.02                                 | –     |
|                         | February 8, 2005                | 4.4750                                                           | 3,500,000                                                    | –                                                     | –                                                          | 3,500,000                      | 1,750,000                                                      | 1.04                                 | –     |
|                         | September 15, 2006              | 4.9240                                                           | –                                                            | 25,000,000                                            | –                                                          | 25,000,000                     | –                                                              | 4.25                                 | –     |
|                         | May 15, 2003                    | N/A                                                              | 2,161,000                                                    | –                                                     | (2,161,000)                                                | –                              | N/A                                                            | 1.78                                 | 10.72 |
|                         | September 15, 2006              | N/A                                                              | –                                                            | 6,500,000                                             | –                                                          | 6,500,000                      | N/A                                                            | 6.39                                 | –     |
| Dr Fan Xingcha          | September 1, 2005               | 5.2500                                                           | 7,000,000                                                    | –                                                     | –                                                          | 7,000,000                      | 2,300,000                                                      | 3.51                                 | –     |
| Yuen Tin Fan, Francis   | July 25, 2003                   | 4.3500                                                           | 8,534,000                                                    | (8,534,000) <sup>1</sup>                              | –                                                          | –                              | N/A                                                            | –                                    | –     |
|                         | February 8, 2005                | 4.4750                                                           | 3,000,000                                                    | (3,000,000) <sup>1</sup>                              | –                                                          | –                              | N/A                                                            | –                                    | –     |
| Non-executive director  |                                 |                                                                  |                                                              |                                                       |                                                            |                                |                                                                |                                      |       |
| Sir David Ford          | July 25, 2003                   | 4.3500                                                           | 2,000,000                                                    | –                                                     | (1,000,000)                                                | 1,000,000                      | 1,000,000                                                      | 0.33                                 | 1.15  |
|                         | February 8, 2005                | 4.4750                                                           | 2,000,000                                                    | –                                                     | –                                                          | 2,000,000                      | 1,000,000                                                      | 0.60                                 | –     |
|                         |                                 |                                                                  |                                                              |                                                       |                                                            |                                | 25.81                                                          | 11.87                                |       |

#### Note:

1 Upon the resignation as executive director with effect from June 5, 2006, the outstanding share options held in the capacity of director became zero.

#### i. Value of shares transferred

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

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

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

#### ii. Share-based compensation charged to income statement

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

Total directors' emoluments for the year ended December 31, 2007, including amortized share-based compensation, were HK\$109.83 million (2006: HK\$104.37 million).

#### c. Individuals with highest emoluments

Of the five individuals with the highest emoluments, four (2006: four) are directors of the Company whose emoluments are disclosed in notes 11(a) and 11(b). The emoluments in respect of the non-director individual in 2007 and 2006 were as follows:

| In HK\$ million                           | The Group<br>2007 | 2006 |
|-------------------------------------------|-------------------|------|
| Salaries, allowances and benefits in kind | 3.30              | 3.46 |
| Bonuses                                   | 3.50              | 3.24 |
| Retirement scheme contributions           | 0.26              | 0.36 |
| Share-based compensation                  | 0.01              | 0.49 |
|                                           | 7.07              | 7.55 |

## 12 INCOME TAX

### a. Taxation in the consolidated income statement represents:

| In HK\$ million                                    | The Group<br>2007 | 2006  |
|----------------------------------------------------|-------------------|-------|
| Hong Kong profits tax                              |                   |       |
| – provision for current year                       | 1,076             | 1,106 |
| – (over)/under provision in respect of prior years | (55)              | 10    |
| Overseas tax                                       |                   |       |
| – provision for current year                       | 45                | 16    |
| – under/(over) provision in respect of prior years | 2                 | (28)  |
| Recovery of deferred taxation (note 34(a))         | (98)              | (184) |
|                                                    | 970               | 920   |

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits for the year.

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

On March 16, 2007, the National People's Congress of the PRC approved the Corporate Income Tax Law (the "new CIT Law"). The new CIT Law reduces the corporate income tax rate applicable to the Group's operations in the PRC from 33% to 25% with effect from January 1, 2008. Accordingly, the deferred tax liabilities for the Group's operations in the PRC as at December 31, 2007 is provided at the rate of 25% on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases. The effect on the change in corporate income tax rate applicable to the Group's operations in the PRC was recognized in the income statement for the current year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2007

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 12 INCOME TAX (CONTINUED)

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

| In HK\$ million                                                                | The Group<br>2007 | 2006  |
|--------------------------------------------------------------------------------|-------------------|-------|
| Profit before taxation                                                         | 2,807             | 2,552 |
| Notional tax on profit before taxation, calculated at applicable tax rates     | 491               | 447   |
| Income not subject to taxation                                                 | (102)             | (146) |
| Expenses not deductible for taxation purposes                                  | 274               | 249   |
| Tax losses not recognized                                                      | 466               | 542   |
| Over provision in prior years, net                                             | (53)              | (18)  |
| Utilization of previously unrecognized tax losses                              | (23)              | (17)  |
| Recognition of previously unrecognized tax losses                              | (36)              | (147) |
| Income not subject to taxation for associates and jointly controlled companies | (2)               | (6)   |
| Reversal of deferred taxation due to change of tax rate in mainland China      | (90)              | –     |
| Tax provision of overseas operations                                           | 45                | 16    |
| Tax expense                                                                    | 970               | 920   |

### 13 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Profit of HK\$22,382 million (2006: HK\$4,292 million) attributable to equity holders of the Company was dealt with in the financial statements of the Company.

### 14 DIVIDENDS

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

| In HK\$ million                                                                                              | 2007  | 2006  |
|--------------------------------------------------------------------------------------------------------------|-------|-------|
| Interim dividend declared and paid of 6.5 HK cents (2006: 6.5 HK cents) per ordinary share                   | 440   | 438   |
| Final dividend proposed after the balance sheet date of 13.5 HK cents (2006: 12 HK cents) per ordinary share | 915   | 811   |
|                                                                                                              | 1,355 | 1,249 |

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

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

| In HK\$ million                                                                                                                                    | 2007 | 2006 |
|----------------------------------------------------------------------------------------------------------------------------------------------------|------|------|
| Final dividend in respect of the previous financial year, approved and paid during the year, of 12 HK cents (2006: 12 HK cents) per ordinary share | 813  | 808  |

## 15 EARNINGS PER SHARE

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

|                                                                                                 | 2007                 | 2006          |
|-------------------------------------------------------------------------------------------------|----------------------|---------------|
| <b>Earnings (in HK\$ million)</b>                                                               |                      |               |
| Earnings for the purpose of basic and diluted earnings per share                                | <b>1,503</b>         | 1,252         |
| <b>Number of shares</b>                                                                         |                      |               |
| Weighted average number of ordinary shares for the purpose of basic earnings per share          | <b>6,766,664,377</b> | 6,735,317,874 |
| Effect of deemed issue of shares under the Company's share option schemes for nil consideration | <b>8,685,600</b>     | 17,122,267    |
| Effect of shares purchased from the market under the Company's share award schemes              | <b>2,401,495</b>     | 1,340,381     |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share        | <b>6,777,751,472</b> | 6,753,780,522 |

The US\$450 million 1% guaranteed convertible bonds due 2007 outstanding as at December 31, 2006 had an anti-dilutive effect on the basic earnings per share for the year ended December 31, 2006. The convertible bonds were fully redeemed in January 2007 (note 26f(i)).

## 16 PROPERTY, PLANT AND EQUIPMENT

In HK\$ million

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2007

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 16 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| In HK\$ million                                | The Group<br>2006     |                       |                       |                              |                                |        |
|------------------------------------------------|-----------------------|-----------------------|-----------------------|------------------------------|--------------------------------|--------|
|                                                | Land and<br>buildings | Exchange<br>equipment | Transmission<br>plant | Other plant<br>and equipment | Projects under<br>construction | Total  |
| <b>Cost</b>                                    |                       |                       |                       |                              |                                |        |
| Beginning of year                              | 1,207                 | 9,335                 | 10,220                | 7,625                        | 1,746                          | 30,133 |
| Additions                                      | –                     | 844                   | 723                   | 851                          | 821                            | 3,239  |
| Transfers                                      | 3                     | 295                   | 506                   | 382                          | (1,184)                        | 2      |
| Disposals                                      | (10)                  | (76)                  | (4)                   | (520)                        | (4)                            | (614)  |
| Exchange differences                           | 6                     | 18                    | –                     | 12                           | 40                             | 76     |
| End of year                                    | 1,206                 | 10,416                | 11,445                | 8,350                        | 1,419                          | 32,836 |
| <b>Accumulated depreciation and impairment</b> |                       |                       |                       |                              |                                |        |
| Beginning of year                              | 99                    | 4,992                 | 3,663                 | 5,367                        | –                              | 14,121 |
| Charge for the year                            | 49                    | 1,121                 | 736                   | 870                          | –                              | 2,776  |
| Impairment losses                              | –                     | 10                    | –                     | 1                            | –                              | 11     |
| Disposals                                      | (8)                   | (68)                  | (4)                   | (499)                        | –                              | (579)  |
| Exchange differences                           | 2                     | 2                     | –                     | 6                            | –                              | 10     |
| End of year                                    | 142                   | 6,057                 | 4,395                 | 5,745                        | –                              | 16,339 |
| <b>Net book value</b>                          |                       |                       |                       |                              |                                |        |
| End of year                                    | 1,064                 | 4,359                 | 7,050                 | 2,605                        | 1,419                          | 16,497 |
| Beginning of year                              | 1,108                 | 4,343                 | 6,557                 | 2,258                        | 1,746                          | 16,012 |

No land and buildings (2006: aggregate carrying value of HK\$31 million) were pledged as security for bank borrowings of the Group as at December 31, 2007.

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

| In HK\$ million                    | The Group |       |
|------------------------------------|-----------|-------|
|                                    | 2007      | 2006  |
| Held in Hong Kong                  |           |       |
| On long-term lease (over 50 years) | 87        | 90    |
| On medium-term lease (10-50 years) | 849       | 890   |
| Held outside Hong Kong             |           |       |
| Freehold                           | 9         | 38    |
| Leasehold                          |           |       |
| On medium-term lease (10-50 years) | 44        | 46    |
|                                    | 989       | 1,064 |

## 16 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| In HK\$ million                                | The Company<br>2007<br>Other plant<br>and equipment |
|------------------------------------------------|-----------------------------------------------------|
| <b>Cost</b>                                    |                                                     |
| Beginning and end of year                      | 5                                                   |
| <b>Accumulated depreciation and impairment</b> |                                                     |
| Beginning and end of year                      | 3                                                   |
| <b>Net book value</b>                          |                                                     |
| End of year                                    | 2                                                   |
| Beginning of year                              | 2                                                   |
| In HK\$ million                                | The Company<br>2006<br>Other plant<br>and equipment |
| <b>Cost</b>                                    |                                                     |
| Beginning and end of year                      | 5                                                   |
| <b>Accumulated depreciation and impairment</b> |                                                     |
| Beginning of year                              | 2                                                   |
| Charge for the year                            | 1                                                   |
| End of year                                    | 3                                                   |
| <b>Net book value</b>                          |                                                     |
| End of year                                    | 2                                                   |
| Beginning of year                              | 3                                                   |

## 17 INVESTMENT PROPERTIES

| In HK\$ million      | The Group<br>2007 | 2006  |
|----------------------|-------------------|-------|
| Beginning of year    | 3,639             | 3,390 |
| Additions            | 4                 | 127   |
| Transfers            | –                 | (2)   |
| Exchange differences | 274               | 123   |
| Fair value gains     | 3                 | 1     |
| End of year          | 3,920             | 3,639 |

Investment properties held in and outside Hong Kong were revalued as at December 31, 2007 by independent valuers, who are a fellow of the Royal Institution of Chartered Surveyors and a member of the Hong Kong Institute of Surveyors respectively. The basis of valuation for investment properties was open market value.

In the consolidated income statements, cost of sales includes HK\$18 million (2006: HK\$16 million) direct operating expenses that generate rental income while HK\$3 million (2006: HK\$2 million) direct operating expenses relating to investment properties that were unlet.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2007

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 17 INVESTMENT PROPERTIES (CONTINUED)

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

| In HK\$ million                    | The Group<br>2007 | 2006  |
|------------------------------------|-------------------|-------|
| Held in Hong Kong                  |                   |       |
| On medium-term lease (10-50 years) | 6                 | 3     |
| Held outside Hong Kong             |                   |       |
| On long-term lease (over 50 years) | 769               | 730   |
| On medium-term lease (10-50 years) | 3,145             | 2,906 |
|                                    | 3,920             | 3,639 |

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

As at December 31, 2007, the total future minimum lease payments in respect of investment properties under non-cancellable operating leases are receivable as follows:

| In HK\$ million                 | The Group<br>2007 | 2006 |
|---------------------------------|-------------------|------|
| Within 1 year                   | 199               | 189  |
| After 1 year but within 5 years | 330               | 302  |
| After 5 years                   | 38                | 1    |
|                                 | 567               | 492  |

### 18 INTERESTS IN LEASEHOLD LAND

| In HK\$ million                          | The Group<br>2007 | 2006  |
|------------------------------------------|-------------------|-------|
| <b>Cost</b>                              |                   |       |
| Beginning of year                        | 1,326             | 819   |
| Additions                                | –                 | 495   |
| Transfer to properties under development | (543)             | –     |
| Exchange differences                     | 36                | 12    |
| End of year                              | 819               | 1,326 |
| <b>Accumulated amortization</b>          |                   |       |
| Beginning of year                        | 186               | 158   |
| Charge for the year                      | 30                | 28    |
| Transfer to properties under development | (12)              | –     |
| End of year                              | 204               | 186   |
| <b>Net book value</b>                    |                   |       |
| End of year                              | 615               | 1,140 |
| Beginning of year                        | 1,140             | 661   |

## 18 INTERESTS IN LEASEHOLD LAND (CONTINUED)

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

| In HK\$ million                    | The Group<br>2007 | 2006  |
|------------------------------------|-------------------|-------|
| Held in Hong Kong                  |                   |       |
| On long-term lease (over 50 years) | 92                | 93    |
| On medium-term lease (10-50 years) | 512               | 533   |
| Held outside Hong Kong             |                   |       |
| On long-term lease (over 50 years) | –                 | 502   |
| On medium-term lease (10-50 years) | 11                | 12    |
|                                    | <b>615</b>        | 1,140 |

The leasehold land transferred to properties under development in 2007 was subject to amortization over the period of the lease on a straight-line basis. The amount of amortization charge of the leasehold land had been capitalized as part of the cost of properties under development. As at December 31, 2007, the net book value of leasehold land included in properties under development was approximately HK\$746 million (2006: HK\$215 million).

## 19 PROPERTIES HELD FOR/UNDER DEVELOPMENT

| In HK\$ million                                   | The Group<br>2007 | 2006    |
|---------------------------------------------------|-------------------|---------|
| Properties under development ( <i>note a</i> )    | 9,291             | 3,270   |
| Properties held for development ( <i>note b</i> ) | 816               | –       |
|                                                   | <b>10,107</b>     | 3,270   |
| Less: Amounts classified as current assets        | (8,436)           | (1,231) |
| Amounts classified as non-current assets          | <b>1,671</b>      | 2,039   |

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2007

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 20 GOODWILL

| In HK\$ million               | The Group<br>2007 | 2006  |
|-------------------------------|-------------------|-------|
| <b>Cost</b>                   |                   |       |
| Beginning of year             | 3,140             | 2,661 |
| Additions                     | 10                | 479   |
| Disposals                     | (78)              | –     |
| Exchange differences          | 2                 | –     |
| End of year                   | 3,074             | 3,140 |
| <b>Accumulated impairment</b> |                   |       |
| Beginning of year             | –                 | –     |
| Impairment loss               | 58                | –     |
| End of year                   | 58                | –     |
| <b>Carrying amount</b>        |                   |       |
| End of year                   | 3,016             | 3,140 |
| Beginning of year             | 3,140             | 2,661 |

#### Impairment tests for cash-generating units containing goodwill

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

| In HK\$ million                                     | The Group<br>2007 | 2006<br>(Note 45) |
|-----------------------------------------------------|-------------------|-------------------|
| TSS                                                 |                   |                   |
| PCCW Global                                         | 585               | 585               |
| Omnalink                                            | 120               | 120               |
|                                                     | 705               | 705               |
| TV & Content                                        |                   |                   |
| PCCW Directories                                    | 162               | 162               |
| ChinaBig                                            | –                 | 58                |
|                                                     | 162               | 220               |
| Mobile                                              | 1,939             | 1,939             |
| PCCW Solutions                                      | 6                 | 6                 |
| PCPD                                                | 180               | 168               |
| Others                                              |                   |                   |
| Taiwan Telecommunication Network Services Co., Ltd. | –                 | 78                |
| UK Broadband                                        | 16                | 16                |
| Others                                              | 8                 | 8                 |
|                                                     | 24                | 102               |
| Total                                               | 3,016             | 3,140             |

## 20 GOODWILL (CONTINUED)

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

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

Key assumptions used for value-in-use calculations:

|                  |              | 2007        |               |
|------------------|--------------|-------------|---------------|
|                  | Gross margin | Growth rate | Discount rate |
| PCCW Global      | 30.1%        | 4.0%        | 14.0%         |
| PCCW Directories | 50.6%        | 2.0%        | 10.0%         |
| Mobile           | 58.4%        | 2.0%        | 15.5%         |
| PCPD             | 19.9%        | –           | 12.0%         |
| UK Broadband     | N/A          | 10.8%       | 15.0%         |

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

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

- a fall of 2.8% in the gross margin; or
- an increase of 5.5% in the discount rate

would have caused an impairment loss to be recognized.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2007

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 21 INTANGIBLE ASSETS

| In HK\$ million                                    | The Group<br>2007 |                    |                                   |                               |                  |                                  |        | Total |
|----------------------------------------------------|-------------------|--------------------|-----------------------------------|-------------------------------|------------------|----------------------------------|--------|-------|
|                                                    | Trademarks        | Content<br>licence | Wireless<br>broadband<br>licences | Mobile<br>carrier<br>licences | Customer<br>base | Customer<br>acquisition<br>costs | Others |       |
| <b>Cost</b>                                        |                   |                    |                                   |                               |                  |                                  |        |       |
| Beginning of year                                  | 1,528             | 375                | 112                               | 115                           | 65               | 221                              | 63     | 2,479 |
| Additions                                          | –                 | –                  | –                                 | 76                            | –                | 657                              | –      | 733   |
| Write-off                                          | (10)              | –                  | –                                 | –                             | (65)             | (67)                             | (54)   | (196) |
| Exchange differences                               | –                 | –                  | 2                                 | –                             | –                | –                                | –      | 2     |
| End of year                                        | 1,518             | 375                | 114                               | 191                           | –                | 811                              | 9      | 3,018 |
| <b>Accumulated amortization<br/>and impairment</b> |                   |                    |                                   |                               |                  |                                  |        |       |
| Beginning of year                                  | 491               | 375                | 77                                | 10                            | 49               | 66                               | 62     | 1,130 |
| Charge for the year (note a)                       | 78                | –                  | 22                                | 12                            | 16               | 317                              | –      | 445   |
| Write-off                                          | (10)              | –                  | –                                 | –                             | (65)             | (67)                             | (54)   | (196) |
| Exchange differences                               | –                 | –                  | 1                                 | –                             | –                | –                                | –      | 1     |
| End of year                                        | 559               | 375                | 100                               | 22                            | –                | 316                              | 8      | 1,380 |
| <b>Net book value</b>                              |                   |                    |                                   |                               |                  |                                  |        |       |
| End of year                                        | 959               | –                  | 14                                | 169                           | –                | 495                              | 1      | 1,638 |
| Beginning of year                                  | 1,037             | –                  | 35                                | 105                           | 16               | 155                              | 1      | 1,349 |
| In HK\$ million                                    |                   |                    |                                   |                               |                  |                                  |        |       |
|                                                    | The Group<br>2006 |                    |                                   |                               |                  |                                  |        | Total |
|                                                    | Trademarks        | Content<br>licence | Wireless<br>broadband<br>licences | Mobile<br>carrier<br>licences | Customer<br>base | Customer<br>acquisition<br>costs | Others |       |
| <b>Cost</b>                                        |                   |                    |                                   |                               |                  |                                  |        |       |
| Beginning of year                                  | 1,528             | 375                | 98                                | 101                           | 65               | –                                | 90     | 2,257 |
| Additions                                          | –                 | –                  | –                                 | 14                            | –                | 233                              | –      | 247   |
| Write-off                                          | –                 | –                  | –                                 | –                             | –                | (12)                             | (27)   | (39)  |
| Exchange differences                               | –                 | –                  | 14                                | –                             | –                | –                                | –      | 14    |
| End of year                                        | 1,528             | 375                | 112                               | 115                           | 65               | 221                              | 63     | 2,479 |
| <b>Accumulated amortization<br/>and impairment</b> |                   |                    |                                   |                               |                  |                                  |        |       |
| Beginning of year                                  | 410               | 375                | 51                                | –                             | 16               | –                                | 79     | 931   |
| Charge for the year (note a)                       | 81                | –                  | 20                                | 10                            | 33               | 78                               | 10     | 232   |
| Write-off                                          | –                 | –                  | –                                 | –                             | –                | (12)                             | (27)   | (39)  |
| Exchange differences                               | –                 | –                  | 6                                 | –                             | –                | –                                | –      | 6     |
| End of year                                        | 491               | 375                | 77                                | 10                            | 49               | 66                               | 62     | 1,130 |
| <b>Net book value</b>                              |                   |                    |                                   |                               |                  |                                  |        |       |
| End of year                                        | 1,037             | –                  | 35                                | 105                           | 16               | 155                              | 1      | 1,349 |
| Beginning of year                                  | 1,118             | –                  | 47                                | 101                           | 49               | –                                | 11     | 1,326 |

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<br>2007 | 2006      |
|----------------------------------------------------------------------|---------------------|-----------|
| Unlisted shares, at cost                                             | 148,401             | 148,401   |
| Capital contribution in respect of employee share-based compensation | 283                 | 288       |
|                                                                      | 148,684             | 148,689   |
| Less: Provision for impairment in value                              | (128,383)           | (128,220) |
|                                                                      | 20,301              | 20,469    |

The provision for impairment in value of HK\$128,383 million (2006: HK\$128,220 million) relates to certain subsidiaries of the Company which hold the Group's investments in subsidiaries, associates, jointly controlled companies, debt and equity securities.

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

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

### a. Amounts due from subsidiaries

| In HK\$ million                | The Company<br>2007 | 2006     |
|--------------------------------|---------------------|----------|
| Amounts due from subsidiaries  | 54,274              | 31,642   |
| Less: Provision for impairment | (18,276)            | (19,271) |
|                                | 35,998              | 12,371   |

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

As at December 31, 2007, the Group has financed the operations of certain of its PRC entities accounted for as subsidiaries in the form of shareholder's loans amounting to approximately US\$117 million (2006: US\$117 million) which have not been registered with the State Administration of Foreign Exchange. As a result, remittances in foreign currency of these amounts outside the PRC may be restricted.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2007

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 22 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

As at December 31, 2007, particulars of the principal subsidiaries of the Company are as follows:

| Company name                                     | Place of incorporation/<br>operations | Principal activities                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Nominal value of issued capital/<br>registered capital                                                     | Interest held by the Company |            |
|--------------------------------------------------|---------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|------------------------------|------------|
|                                                  |                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                            | Directly                     | Indirectly |
| PCCW-HKT Limited                                 | Hong Kong                             | Investment holding                                                                                                                                                                                                                                                                                                                                                                                                                                                            | HK\$6,092,100,052                                                                                          | –                            | 100%       |
| PCCW-HKT Telephone Limited <sup>1</sup>          | Hong Kong                             | Telecommunications services                                                                                                                                                                                                                                                                                                                                                                                                                                                   | HK\$2,163,783,209                                                                                          | –                            | 100%       |
| PCCW-HKT Business Services Limited               | Hong Kong                             | Provision of business customer premises equipment and ancillary business services                                                                                                                                                                                                                                                                                                                                                                                             | HK\$2                                                                                                      | –                            | 100%       |
| PCCW-HKT Network Services Limited                | Hong Kong                             | Provision of retail international data and value-added services, local value-added telecommunications services; consumer premises equipment, business customer premises equipment, computer products and ancillary services, marketing and selling satellite master antenna television and related equipment and products and provision of maintenance services in relation thereto, manages customer loyalty programs “No.1 Club” and “Partners” for members of the programs | HK\$3                                                                                                      | –                            | 100%       |
| PCCW-HKT Technical Services Limited              | Hong Kong                             | Provision of technical support and maintenance services                                                                                                                                                                                                                                                                                                                                                                                                                       | HK\$500,002                                                                                                | –                            | 100%       |
| PCCW Media Limited                               | Hong Kong                             | Provision of pay television programme services and interactive multimedia services                                                                                                                                                                                                                                                                                                                                                                                            | HK\$3,500,000,100<br>(HK\$3,500,000,095 ordinary shares, HK\$1 “A” Class share and HK\$4 “B” Class shares) | –                            | 100%       |
| PCCW Teleservices (Hong Kong) Limited            | Hong Kong                             | Provision of customer relationship management and customer contact management solutions and services                                                                                                                                                                                                                                                                                                                                                                          | HK\$12                                                                                                     | –                            | 100%       |
| PCCW Teleservices Operations (Hong Kong) Limited | Hong Kong                             | Provision of customer relationship management and customer contact management solutions and services                                                                                                                                                                                                                                                                                                                                                                          | HK\$2                                                                                                      | –                            | 100%       |
| 廣州電盈綜合客戶服務技術發展有限公司 <sup>3</sup>                  | The PRC                               | Customer service and consultancy                                                                                                                                                                                                                                                                                                                                                                                                                                              | HK\$53,803,000                                                                                             | –                            | 100%       |
| PCCW (Macau), Limitada                           | Macau                                 | Selling customer premises equipment and related solutions, conducting systems integration projects and providing outsourced call center services                                                                                                                                                                                                                                                                                                                              | MOP2,000,000                                                                                               | –                            | 75%        |
| Cascade Limited                                  | Hong Kong                             | Design, build and operate network infrastructures including technical consultancy and operation outsourcing                                                                                                                                                                                                                                                                                                                                                                   | HK\$10,000                                                                                                 | –                            | 100%       |
| PCCW IMS Limited                                 | Hong Kong                             | Provision of retail broadband and narrowband Internet access services under the “NETVIGATOR” brandname, international telecommunication services and the provision of support services to a fellow subsidiary                                                                                                                                                                                                                                                                 | HK\$2                                                                                                      | –                            | 100%       |
| PCCW Global (HK) Limited                         | Hong Kong                             | Provision of telecommunication services and satellite transponder capacity                                                                                                                                                                                                                                                                                                                                                                                                    | HK\$10                                                                                                     | –                            | 100%       |
| PCCW Global Limited                              | Hong Kong                             | Global Internet Protocol based communication service                                                                                                                                                                                                                                                                                                                                                                                                                          | HK\$2                                                                                                      | –                            | 100%       |

## 22 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

| Company name                                                              | Place of incorporation/<br>operations | Principal activities                                                                                                                                                                                              | Nominal value of issued capital/<br>registered capital                                           | Interest held by the Company |            |
|---------------------------------------------------------------------------|---------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|------------------------------|------------|
|                                                                           |                                       |                                                                                                                                                                                                                   |                                                                                                  | Directly                     | Indirectly |
| PCCW Global, Inc.                                                         | U.S.A.                                | Supply of broadband internet access solutions and web services                                                                                                                                                    | US\$18                                                                                           | –                            | 100%       |
| PCCW Global (Singapore) Pte. Ltd.                                         | Singapore                             | Telecommunication solutions related services                                                                                                                                                                      | S\$2                                                                                             | –                            | 100%       |
| 電訊盈科(北京)有限公司 <sup>2</sup>                                                 | The PRC                               | Systems integration, consulting and informatization project                                                                                                                                                       | US\$10,250,000                                                                                   | –                            | 100%       |
| Unihub China Information Technology Company Limited <sup>4</sup>          | The PRC                               | Selling of hardware and software and information system consulting services                                                                                                                                       | RMB200,000,000                                                                                   | –                            | 38.2%      |
| PCCW Solutions Limited                                                    | Hong Kong                             | Computer services and provision of IP/IT related value-added services to business customers                                                                                                                       | HK\$1,200                                                                                        | –                            | 100%       |
| PCCW Business eSolutions Limited                                          | Hong Kong                             | Provision of IP/IT related value-added services to business customers                                                                                                                                             | HK\$2                                                                                            | –                            | 100%       |
| PCCW Powerbase Data Center Services (HK) Limited                          | Hong Kong                             | Data center services                                                                                                                                                                                              | HK\$2                                                                                            | –                            | 100%       |
| Power Logistics Limited                                                   | Hong Kong                             | Provision of logistics services                                                                                                                                                                                   | HK\$100,000                                                                                      | –                            | 100%       |
| PCCW Directories Limited <sup>1</sup>                                     | Hong Kong                             | Sale of advertising in the Business White Pages, Yellow Pages for businesses and Yellow Pages for customers, publication of directories, provision of Internet directory services and sale of on-line advertising | HK\$10,000                                                                                       | –                            | 100%       |
| Pacific Century Premium Developments Limited                              | Bermuda/<br>Hong Kong                 | Investment holding                                                                                                                                                                                                | HK\$240,745,987                                                                                  | –                            | 61.53%     |
| Cyber-Port Limited                                                        | Hong Kong                             | Property development                                                                                                                                                                                              | HK\$2                                                                                            | –                            | 61.53%     |
| Beijing Jing Wei House and Land Estate Development Co., Ltd. <sup>5</sup> | The PRC                               | Property development                                                                                                                                                                                              | US\$100,000,000                                                                                  | –                            | 61.53%     |
| 北京啟夏房地產開發有限公司 <sup>3</sup>                                                | The PRC                               | Property development                                                                                                                                                                                              | US\$78,000,000                                                                                   | –                            | 61.53%     |
| Talent Master Investments Limited                                         | British Virgin Islands/<br>Hong Kong  | Property development                                                                                                                                                                                              | US\$1                                                                                            | –                            | 61.53%     |
| Nihon Harmony Resorts K.K. <sup>2</sup>                                   | Japan                                 | Project development                                                                                                                                                                                               | JPY405,000,000                                                                                   | –                            | 61.53%     |
| SUNDAY Holdings (Hong Kong) Corporation                                   | British Virgin Islands                | Investment holding                                                                                                                                                                                                | US\$112                                                                                          | –                            | 100%       |
| PCCW Mobile HK Limited                                                    | Hong Kong                             | Provision of mobile services, and sales of mobile phones and accessories                                                                                                                                          | HK\$1,254,000,100<br>(HK\$100 ordinary shares, and HK\$1,254,000,000 non-voting deferred shares) | –                            | 100%       |
| UK Broadband Limited                                                      | United Kingdom                        | Wireless broadband access services                                                                                                                                                                                | GBP1                                                                                             | –                            | 100%       |

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

### Notes:

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2007

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 23 INTEREST IN ASSOCIATES

| In HK\$ million                                               | The Group<br>2007 | 2006  |
|---------------------------------------------------------------|-------------------|-------|
| Share of net assets of associates, net of unrecognized losses | <b>715</b>        | 698   |
| Loans due from an associate                                   | <b>78</b>         | 78    |
| Amount due from an associate                                  | <b>34</b>         | 34    |
|                                                               | <b>827</b>        | 810   |
| Provision for impairment                                      | <b>(172)</b>      | (173) |
|                                                               | <b>655</b>        | 637   |
| Investments at cost, unlisted shares                          | <b>975</b>        | 975   |

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

As at December 31, 2007, particulars of the principal associates of the Group are as follows:

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

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

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

| In HK\$ million       | 2007         | 2006  |
|-----------------------|--------------|-------|
| Total assets          | <b>1,764</b> | 1,615 |
| Total liabilities     | <b>(378)</b> | (316) |
| Turnover              | <b>761</b>   | 622   |
| Profit after taxation | <b>63</b>    | 55    |

During the year ended December 31, 2007, the Group has not recognized its share of losses of its associates amounting to approximately HK\$1 million (2006: HK\$2 million). As at December 31, 2007, the accumulated share of losses of the associates unrecognized by the Group was HK\$8 million (2006: HK\$8 million).

## 24 INTEREST IN JOINTLY CONTROLLED COMPANIES

| In HK\$ million                                                                 | The Group<br>2007 | 2006    |
|---------------------------------------------------------------------------------|-------------------|---------|
| Share of net assets of jointly controlled companies, net of unrecognized losses | <b>3,119</b>      | 2,815   |
| Loans due from jointly controlled companies                                     | <b>10</b>         | 8       |
| Amounts due from jointly controlled companies                                   | <b>24</b>         | 24      |
|                                                                                 | <b>3,153</b>      | 2,847   |
| Provision for impairment                                                        | <b>(2,837)</b>    | (2,837) |
|                                                                                 | <b>316</b>        | 10      |
| Investments at cost, unlisted shares                                            | <b>3,449</b>      | 3,130   |

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

As at December 31, 2007, 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/<br>registered capital | Interest held by the Company |            |
|------------------|------------------------|-----------------------------------------------------------|--------------------------------------------------------|------------------------------|------------|
|                  |                        |                                                           |                                                        | Directly                     | Indirectly |
| Reach Ltd.       | Bermuda                | Provision of international telecommunication services     | US\$5,890,000,000                                      | –                            | 50%        |
| 網通寬帶網絡<br>有限責任公司 | The PRC                | Provision of telecommunication services and IPTV services | RMB644,518,697                                         | –                            | 50%        |

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

| In HK\$ million         | 2007           | 2006    |
|-------------------------|----------------|---------|
| Non-current assets      | <b>1,307</b>   | 768     |
| Current assets          | <b>564</b>     | 616     |
| Total assets            | <b>1,871</b>   | 1,384   |
| Non-current liabilities | <b>(279)</b>   | (341)   |
| Current liabilities     | <b>(1,754)</b> | (1,842) |
| Net liabilities         | <b>(162)</b>   | (799)   |
| Turnover                | <b>2,532</b>   | 2,264   |
| Expenses                | <b>(2,479)</b> | (2,213) |
| Profit before taxation  | <b>53</b>      | 51      |
| Taxation                | <b>3</b>       | (7)     |
| Profit for the year     | <b>56</b>      | 44      |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2007

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 25 INVESTMENTS

Investments are analyzed as follows:

| In HK\$ million                                                | The Group<br>2007 | 2006 |
|----------------------------------------------------------------|-------------------|------|
| Held-to-maturity investments                                   | 6                 | 12   |
| Available-for-sale financial assets (note a)                   | 321               | 496  |
| Financial assets at fair value through profit or loss (note b) | 12                | 50   |
|                                                                | 339               | 558  |

#### a. Available-for-sale financial assets

| In HK\$ million                          | The Group<br>2007 | 2006    |
|------------------------------------------|-------------------|---------|
| Listed equity securities                 |                   |         |
| Overseas                                 | 49                | 37      |
| Less: Provision for impairment           | (26)              | –       |
|                                          | 23                | 37      |
| Unlisted equity securities               |                   |         |
| Cost                                     | 1,526             | 1,790   |
| Less: Provision for impairment           | (1,228)           | (1,331) |
|                                          | 298               | 459     |
|                                          | 321               | 496     |
| Market value of listed equity securities | 23                | 37      |

The movement in the provision for impairment of unlisted equity securities during the year is as follows:

| In HK\$ million                                              | The Group<br>2007 | 2006  |
|--------------------------------------------------------------|-------------------|-------|
| Beginning of year                                            | 1,331             | 1,321 |
| Impairment loss recognized                                   | 34                | 40    |
| Amounts reclassified on transfer to listed equity securities | (16)              | (16)  |
| Amounts written off on disposal                              | (121)             | (14)  |
| End of year                                                  | 1,228             | 1,331 |

As at December 31, 2007, the Group's unlisted equity securities of HK\$139 million (2006: HK\$198 million) was individually determined to be impaired. Consequently, provision for impairment of HK\$34 million (2006: HK\$40 million) was recognized in the income statement. The Group does not hold any collateral over these balances.

During the year, available-for-sale financial assets with a carrying value of approximately HK\$303 million (2006: HK\$101 million) were sold and approximately HK\$95 million (2006: HK\$88 million) was transferred from equity on disposal (see note 33). As a result, a realized gain of approximately HK\$79 million (2006: HK\$88 million) was recognized and included in "Other (losses)/gains, net" in the consolidated income statement.

No available-for-sale financial assets (2006: aggregate carrying value of HK\$21 million) were pledged as security for bank borrowings of the Group as at December 31, 2007.

## 25 INVESTMENTS (CONTINUED)

### b. Financial assets at fair value through profit or loss

| In HK\$ million            | The Group<br>2007 | 2006 |
|----------------------------|-------------------|------|
| Held for trading           |                   |      |
| Listed equity securities   |                   |      |
| Hong Kong                  | 12                | 4    |
| Unlisted equity securities | –                 | 46   |
|                            | 12                | 50   |

## 26 CURRENT ASSETS AND LIABILITIES

### a. Sales proceeds held in stakeholders' accounts

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

### b. Restricted cash

Pursuant to the Cyberport Project Agreement, the Group has a restricted cash balance of approximately HK\$575 million as at December 31, 2007 (2006: HK\$826 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\$106 million as at December 31, 2007 (2006: HK\$4,301 million) in connection with the release of undertakings in relation to the capital reduction of the Company.

The remaining HK\$1 million as at December 31, 2007 (2006: HK\$1 million) represented a bank deposit placed by an indirect subsidiary of the Company as a security for a bank guarantee issued in respect of the use of facilities at the Hong Kong International Airport for the provision of mobile services.

### c. Prepayments, deposits and other current assets

Included in prepayments, deposits and other current assets was prepaid programme costs of approximately HK\$120 million as at December 31, 2007 (2006: HK\$54 million).

### d. Inventories

| In HK\$ million        | The Group<br>2007 | 2006 |
|------------------------|-------------------|------|
| Work-in-progress       | 678               | 375  |
| Finished goods         | 138               | 152  |
| Consumable inventories | 38                | 17   |
|                        | 854               | 544  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2007

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 26 CURRENT ASSETS AND LIABILITIES (CONTINUED)

#### e. Accounts receivable, net

| In HK\$ million                                             | The Group<br>2007 | 2006  |
|-------------------------------------------------------------|-------------------|-------|
| Accounts receivable ( <i>note i</i> )                       | <b>2,987</b>      | 2,846 |
| Less: Impairment loss for doubtful debts ( <i>note ii</i> ) | <b>(278)</b>      | (266) |
| Accounts receivable, net                                    | <b>2,709</b>      | 2,580 |

#### i. Aging analysis of accounts receivable

| In HK\$ million | The Group<br>2007 | 2006  |
|-----------------|-------------------|-------|
| 0 – 30 days     | <b>1,584</b>      | 1,759 |
| 31 – 60 days    | <b>461</b>        | 370   |
| 61 – 90 days    | <b>209</b>        | 143   |
| 91 – 120 days   | <b>142</b>        | 111   |
| Over 120 days   | <b>591</b>        | 463   |
|                 | <b>2,987</b>      | 2,846 |

#### 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<br>2007 | 2006 |
|-----------------------------------|-------------------|------|
| Beginning of year                 | <b>266</b>        | 228  |
| Impairment loss recognized        | <b>218</b>        | 106  |
| Uncollectible amounts written off | <b>(206)</b>      | (68) |
| End of year                       | <b>278</b>        | 266  |

As at December 31, 2007, the Group's accounts receivable of HK\$214 million (2006: HK\$169 million) was individually determined to be impaired. The individually impaired receivable related to customers that were in financial difficulties and management assessed that only a portion of the receivable is expected to be recovered. Consequently, specific provision for doubtful debts of HK\$191 million (2006: HK\$162 million) was recognized. The Group does not hold any collateral over these balances.

## 26 CURRENT ASSETS AND LIABILITIES (CONTINUED)

### e. Accounts receivable, net (continued)

#### iii. Accounts receivable that is not impaired

The aging analysis of accounts receivable that is neither individually nor collectively considered to be impaired is as follows:

| In HK\$ million               | The Group<br>2007 | 2006  |
|-------------------------------|-------------------|-------|
| Neither past due nor impaired | 1,446             | 1,648 |
| 0–30 days past due            | 486               | 364   |
| 31–60 days past due           | 193               | 159   |
| 61–90 days past due           | 135               | 80    |
| Over 90 days past due         | 426               | 324   |
| Past due but not impaired     | 1,240             | 927   |
|                               | 2,686             | 2,575 |

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

Accounts receivable that was past due but not impaired relates to a wide range of customers that have a good track record with the Group. Based on past experience, management believes that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

### f. Short-term borrowings

| In HK\$ million                                                   | The Group<br>2007 | 2006   | The Company<br>2007 | 2006  |
|-------------------------------------------------------------------|-------------------|--------|---------------------|-------|
| Bank loans                                                        | 10,174            | 6,311  | –                   | 6,300 |
| Current portion of long-term borrowings (note 27)                 | –                 | 3,521  | –                   | –     |
| US\$450 million 1% guaranteed convertible bonds due 2007 (note i) | –                 | 4,163  | –                   | –     |
|                                                                   | 10,174            | 13,995 | –                   | 6,300 |
| Secured                                                           | –                 | 11     | –                   | –     |
| Unsecured                                                         | 10,174            | 13,984 | –                   | 6,300 |

#### i. US\$450 million 1% guaranteed convertible bonds due 2007

On January 29, 2002, PCCW Capital No. 2 Limited, an indirect wholly-owned subsidiary of the Company, issued US\$450 million 1% guaranteed convertible bonds due 2007, which were unconditionally and irrevocably guaranteed on a joint and several basis by the Company and PCCW-HKT Telephone Limited (“HKTC”), an indirect wholly-owned subsidiary of the Company. The convertible bonds due 2007 were listed on the Luxembourg Stock Exchange. They were convertible, at the option of their holders, into ordinary shares of the Company at an initial conversion price of HK\$13.5836 (approximately US\$1.7415) per share at any time up to and including the close of business on January 15, 2007. The bonds bore interest at 1% per annum, payable semi-annually in arrears on January 29 and July 29 in each year and at maturity, commencing on July 29, 2002.

As at December 31, 2006, none of the convertible bonds due 2007 had been converted into ordinary shares of the Company. On January 29, 2007, these bonds were fully redeemed upon the scheduled maturity in cash, which was equivalent to 119.383% of the principal amount, plus accrued interest as at January 29, 2007.

The convertible bonds due 2007 were split into the liability and equity components at initial recognition. Interest expense on the convertible bonds is calculated using the effective interest method by applying the effective interest rate of 5.3% to the liability component, including the redemption premium.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2007

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 26 CURRENT ASSETS AND LIABILITIES (CONTINUED)

#### g. Accounts payable

An aging analysis of accounts payable is set out below:

| In HK\$ million | The Group<br>2007 | 2006  |
|-----------------|-------------------|-------|
| 0 – 30 days     | 721               | 598   |
| 31 – 60 days    | 134               | 90    |
| 61 – 90 days    | 29                | 16    |
| 91 – 120 days   | 24                | 54    |
| Over 120 days   | 356               | 264   |
|                 | <b>1,264</b>      | 1,022 |

#### h. Gross amount due to customers for contract work

| In HK\$ million                                                           | The Group<br>2007 | 2006  |
|---------------------------------------------------------------------------|-------------------|-------|
| Contract costs incurred plus attributable profits less foreseeable losses | 779               | 779   |
| Less: Estimated value of work performed                                   | (786)             | (786) |
|                                                                           | <b>(7)</b>        | (7)   |

The total amount of progress billings, included in the estimated value of work performed as at December 31, 2007, was approximately HK\$786 million (2006: HK\$786 million).

Included in other current assets at December 31, 2007 was approximately HK\$8 million (2006: HK\$8 million being included in other non-current assets) representing retention receivable from customers in respect of construction contracts in progress.

### 27 LONG-TERM BORROWINGS

| In HK\$ million                                                                          | The Group<br>2007 | 2006    |
|------------------------------------------------------------------------------------------|-------------------|---------|
| Repayable within a period                                                                |                   |         |
| – not exceeding one year                                                                 | –                 | 3,521   |
| – over two years, but not exceeding five years                                           | 7,765             | 7,731   |
| – over five years                                                                        | 7,740             | 7,707   |
|                                                                                          | <b>15,505</b>     | 18,959  |
| Less: Amounts repayable within one year included under current liabilities (note 26(f)): |                   |         |
| US\$456 million 7.88% guaranteed notes due 2013 (note b)                                 | –                 | (3,521) |
|                                                                                          | <b>15,505</b>     | 15,438  |
| Representing:                                                                            |                   |         |
| US\$1,000 million 8% guaranteed notes due 2011 (note a)                                  | 7,765             | 7,731   |
| US\$500 million 6% guaranteed notes due 2013 (note c)                                    | 3,878             | 3,862   |
| US\$500 million 5.25% guaranteed notes due 2015 (note d)                                 | 3,862             | 3,845   |
|                                                                                          | <b>15,505</b>     | 15,438  |
| Secured                                                                                  | –                 | –       |
| Unsecured                                                                                | <b>15,505</b>     | 15,438  |

## 27 LONG-TERM BORROWINGS (CONTINUED)

### a. US\$1,000 million 8% guaranteed notes due 2011

In November 2001, PCCW-HKT Capital Limited, an indirect wholly-owned subsidiary of the Company, issued US\$1,000 million 7.75% guaranteed notes due 2011 (the "Notes due 2011"). Interest is payable semi-annually in arrears. The interest rate payable on the Notes due 2011 will be subject to adjustment from time to time if the relevant rating agencies downgrade the rating ascribed to the Notes due 2011 below a pre-agreed level. The interest rate payable on the Notes due 2011 has been adjusted to 8% based on the current ratings.

The Notes due 2011 are unconditionally and irrevocably guaranteed by HKTC and will rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC.

### b. US\$456 million 7.88% guaranteed notes due 2013

On January 24, 2003, PCCW Capital No. 3 Limited, an indirect wholly-owned subsidiary of the Company, privately placed US\$456 million 7.88% guaranteed notes due 2013 to raise funds for general corporate purposes. The notes were listed on the Luxembourg Stock Exchange and were unconditionally and irrevocably guaranteed by the Company until May 12, 2004. On May 12, 2004, the noteholders approved the novation of the guarantee to HKTC and amendments to certain terms of the notes. On January 24, 2007, these guaranteed notes were fully redeemed.

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

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

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

On July 20, 2005, PCCW-HKT Capital No.3 Limited, an indirect wholly-owned subsidiary of the Company, issued US\$500 million 5.25% guaranteed notes due 2015, which are listed on the Singapore Exchange Securities Trading Limited. Interest is payable semi-annually in arrears. The notes are irrevocably and unconditionally guaranteed by HKTC and will rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC. The proceeds are used for general corporate purposes.

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

## 28 AMOUNT PAYABLE TO THE GOVERNMENT UNDER THE CYBERPORT PROJECT AGREEMENT

In HK\$ million

The Group  
2007

|                                                                    | Government<br>share under<br>the Cyberport<br>Project<br>Agreement<br>(Note a) | Others | Total   |
|--------------------------------------------------------------------|--------------------------------------------------------------------------------|--------|---------|
| Beginning of year                                                  | 3,480                                                                          | 25     | 3,505   |
| Additional amount payable included in properties under development | 6,745                                                                          | –      | 6,745   |
| Additional amount payable                                          | –                                                                              | 33     | 33      |
| Settlement during the year                                         | (3,339)                                                                        | (25)   | (3,364) |
| End of year                                                        | 6,886                                                                          | 33     | 6,919   |
| Less: Amounts classified as current liabilities                    | (5,145)                                                                        | (33)   | (5,178) |
| Amounts classified as non-current liabilities                      | 1,741                                                                          | –      | 1,741   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2007

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 28 AMOUNT PAYABLE TO THE GOVERNMENT UNDER THE CYBERPORT PROJECT AGREEMENT (CONTINUED)

- 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 a part of the development costs of the Cyberport project. The amount payable is based on estimated sales proceeds of the residential portion of the Cyberport project and the estimated development costs of the Cyberport project. The estimated amount to be paid to the Government during the forthcoming year is classified as current liabilities.

### 29 DERIVATIVE FINANCIAL INSTRUMENTS

| In HK\$ million                                                       | The Group<br>2007 | 2006  | The Company<br>2007 | 2006 |
|-----------------------------------------------------------------------|-------------------|-------|---------------------|------|
| Current assets                                                        |                   |       |                     |      |
| Cross currency swap contracts – cash flow hedges<br>(note a)          | 43                | –     | –                   | –    |
| Interest rate option contract – held for trading (note b)             | –                 | –     | –                   | –    |
|                                                                       | 43                | –     | –                   | –    |
| Current liabilities                                                   |                   |       |                     |      |
| Cross currency swap contracts – cash flow hedges<br>(note a)          | (6)               | (470) | –                   | –    |
| Cross currency swap contracts – not qualified for<br>hedge accounting | –                 | (85)  | –                   | (6)  |
| Forward foreign exchange contract (note c)                            | (7)               | –     | –                   | –    |
|                                                                       | (13)              | (555) | –                   | (6)  |

- a. As at December 31, 2007, the Group had outstanding cross currency swap contracts with notional contract amounts of US\$2,000 million (approximately HK\$15,517 million) (2006: US\$2,906 million (approximately HK\$22,616 million)) at various rates, to manage the Group's exposure to foreign currencies fluctuations. As at December 31, 2006, the Company had outstanding cross currency swap contracts with notional contract amounts of US\$450 million (approximately HK\$3,506 million) at various rates. The Company had no outstanding cross currency swap contract as at December 31, 2007.

The carrying amounts of cross currency swap contracts represent either the net fair value receivables, which are included in current assets, or net fair value payables, which are included in current liabilities, as at December 31, 2007.

All cross currency swap contracts outstanding as at December 31, 2007 with notional contract amounts of US\$2,000 million (approximately HK\$15,517 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 range from approximately 1 year to the full term of the underlying borrowings and has fixed the USD/HKD exchange rate at 7.7508 to 7.7790 for the notional amounts. As at December 31, 2006 certain cross currency swap contracts outstanding with notional contract amounts of US\$2,000 million (approximately HK\$15,562 million) were designated as cash flow hedges. The maturity of these swaps matched the maturity of the underlying borrowings and have fixed the USD/HKD exchange rate at 7.7625 to 7.7915 for the notional amounts (see note 39(c)(i)). Gains and losses recognized in the hedging reserve under equity on these cross currency swap contracts will be continuously released to the income statement until the repayment of the borrowings.

- b. The Group enters into interest rate option contracts to manage its interest rate risk. As at December 31, 2007, the total notional amount of such instruments was HK\$20 million (2006: HK\$28 million) and the carrying amount of such instruments representing the fair value was nil (2006: Nil).

- c. As at December 31, 2007, the Group has outstanding forward foreign exchange contract to sell THB2,425 million at approximately US\$70 million fixing the THB/USD forward rate at 34.113. The contract has incurred an estimated loss of HK\$7 million as at December 31, 2007. There was no outstanding forward foreign exchange contract as at December 31, 2006.

### 30 SHARE CAPITAL

|                                             | 2007             |                            | 2006             |                            |
|---------------------------------------------|------------------|----------------------------|------------------|----------------------------|
|                                             | Number of shares | Nominal value HK\$ million | Number of shares | Nominal value HK\$ million |
| Authorized:                                 |                  |                            |                  |                            |
| Ordinary shares of HK\$0.25 each            |                  |                            |                  |                            |
| Beginning and end of year                   | 10,000,000,000   | 2,500                      | 10,000,000,000   | 2,500                      |
| Issued and fully paid:                      |                  |                            |                  |                            |
| Ordinary shares of HK\$0.25 each            |                  |                            |                  |                            |
| Beginning of year                           | 6,750,171,317    | 1,688                      | 6,723,020,490    | 1,681                      |
| Exercise of employee share options (note a) | 28,455,836       | 7                          | 27,150,827       | 7                          |
| End of year                                 | 6,778,627,153    | 1,695                      | 6,750,171,317    | 1,688                      |

a. During 2007, 28,455,836 (2006: 27,150,827) employee share options were exercised by the eligible option holders at their respective subscription prices for a total cash consideration of HK\$125,113,074 (2006: HK\$119,277,935) resulting in the issue of an aggregate of 28,455,836 (2006: 27,150,827) new ordinary shares of the Company of HK\$0.25 each, details of which are set out in note 32(a)(iv).

All new ordinary shares issued during the year rank *pari passu* in all respects with the existing shares.

### 31 EMPLOYEE RETIREMENT BENEFITS

#### a. Defined benefit retirement schemes

The Group operates defined benefit retirement schemes ("DB Schemes") that provide lump sum benefits for employees upon resignation and retirement. The DB Schemes are final salary defined benefit schemes. The scheme assets are administered by independent trustees and are maintained independently of the Group's finances.

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

The latest independent actuarial valuation of the DB Schemes, prepared in accordance with HKAS 19, was carried out on December 31, 2007 and was prepared by Mr Aaron Wong of Watson Wyatt Hong Kong Limited, fellow of the Canadian Institute of Actuaries and also fellow of Society of Actuaries, USA, using the projected unit credit method. The actuary was of the opinion that the fair value of the scheme assets was sufficient to cover 81.4% (2006: 87.8%) of the present value of the defined benefit obligations as at December 31, 2007.

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

| In HK\$ million                                             | The Group |       |
|-------------------------------------------------------------|-----------|-------|
|                                                             | 2007      | 2006  |
| Present value of the defined benefit obligations (note iii) | 253       | 237   |
| Fair value of scheme assets (note iv)                       | (206)     | (208) |
|                                                             | 47        | 29    |
| Unrecognized actuarial losses                               | (38)      | (18)  |
| Defined benefit liability in the consolidated balance sheet | 9         | 11    |

No employer's contributions are expected to be paid to the scheme in 2008.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2007

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 31 EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

#### a. Defined benefit retirement schemes (continued)

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

|                                   | The Group<br>2007 | 2006 |
|-----------------------------------|-------------------|------|
| Equity securities                 | –                 | –    |
| Cash or short-term fixed deposits | –                 | 100% |
| Other (insurance fund)            | 100%              | –    |
|                                   | 100%              | 100% |

As at December 31, 2007, the scheme assets do not include any ordinary shares issued by the Company (2006: Nil).

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

| In HK\$ million   | The Group<br>2007 | 2006 |
|-------------------|-------------------|------|
| Beginning of year | 237               | 228  |
| Benefits paid     | (11)              | (11) |
| Interest cost     | 9                 | 10   |
| Actuarial losses  | 18                | 10   |
| End of year       | 253               | 237  |

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

| In HK\$ million                  | The Group<br>2007 | 2006 |
|----------------------------------|-------------------|------|
| Beginning of year                | 208               | 211  |
| Benefits paid                    | (11)              | (11) |
| Expected return on scheme assets | 11                | 12   |
| Actuarial losses                 | (2)               | (4)  |
| End of year                      | 206               | 208  |

##### v. (Income)/Expense recognized in the consolidated income statement is as follows:

| In HK\$ million                                                                                                                                                                 | The Group<br>2007 | 2006 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|------|
| Interest cost                                                                                                                                                                   | 9                 | 10   |
| Expected return on scheme assets                                                                                                                                                | (11)              | (12) |
|                                                                                                                                                                                 | (2)               | (2)  |
| The income is recognized in the following line item in the consolidated income statement:<br>General and administrative expenses - retirement costs for other staff (note 9(a)) | (2)               | (2)  |
| Actual return on scheme assets                                                                                                                                                  | 9                 | 8    |

### 31 EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

#### a. Defined benefit retirement schemes (continued)

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

|                                          | The Group<br>2007 | 2006  |
|------------------------------------------|-------------------|-------|
| Discount rate                            | 3.55%             | 4.00% |
| Expected rate of return on scheme assets | 5.75%             | 5.75% |
| Future pension increase                  | 3.00%             | 3.00% |

The expected rate of return on scheme assets is based on the long-term benchmark allocation of the scheme.

#### vii. Historical information:

| In HK\$ million                                  | The Group<br>2007 | 2006  |
|--------------------------------------------------|-------------------|-------|
| Present value of the defined benefit obligations | 253               | 237   |
| Fair value of scheme assets                      | (206)             | (208) |
| Deficit in the scheme                            | 47                | 29    |
| Experience losses on scheme liabilities          | 3                 | 2     |
| Experience losses on scheme assets               | 2                 | 4     |

#### b. Defined contribution retirement scheme

The Group also operates defined contribution schemes, including the Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The schemes are administered by independent trustees.

Under the defined contribution scheme, the employer is required to make contributions to the scheme at rates specified under the rules of the scheme. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the scheme vest immediately upon the completion of the service in the relevant service period.

**32 EQUITY COMPENSATION BENEFITS****a. Share option schemes of the Company**

The Company has a share option scheme (the “1994 Scheme”) which was adopted in September 1994 and amended in May 2002 under which the board of directors (the “Board”) of the Company may, at its discretion, invite employees of the Group, including directors of any company in the Group, and other eligible persons, to take up options to subscribe for shares of the Company. The vesting period and exercise period of the options are determined by the Board but in any case no options can be exercised later than 10 years from the date of grant. Each option gives the holder the right to subscribe for one share. The 1994 Scheme was due to expire in September 2004.

At the Company’s annual general meeting held on May 19, 2004, the shareholders of the Company approved the termination of the 1994 Scheme and the adoption of a new share option scheme (the “2004 Scheme”). Since May 19, 2004, the Board may, at its discretion, grant share options to any eligible person to subscribe for shares in the Company subject to the terms and conditions stipulated in the 2004 Scheme. The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2004 Scheme and any other share option schemes including 1994 Scheme must not exceed 30% of the shares in issue from time to time. In addition, the maximum number of shares which may be granted under the 2004 Scheme must not exceed 10% of the Company’s issued share capital as at May 19, 2004 (or some other date if renewal of this limit is approved by shareholders). The exercise price of the options under the 2004 Scheme shall be determined by the Board at its absolute discretion but in any event shall not be less than the highest of (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, (ii) the average closing price of the shares as stated in the daily quotations sheet of the Stock Exchange for the five days last preceding the date of grant on which days it has been possible to trade shares on the Stock Exchange, and (iii) the nominal value of a share on the date of grant. The vesting period and exercise period of the options are determined by the Board, but no option can be exercised later than the day last preceding the tenth anniversary of the date of grant in respect of such option. In general, the subscription price is determined by reference to the closing prices of the shares as stated in the daily quotations sheet of the Stock Exchange. The basis for determination of the subscription price and the total number of shares that can be granted to eligible persons are precisely specified in the rules of the 2004 Scheme. The 2004 Scheme does not specify a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

**i. Movements in the number of share options outstanding and their related weighted average exercise prices**

|                                    | 2007                                       |                      | 2006                                       |                      |
|------------------------------------|--------------------------------------------|----------------------|--------------------------------------------|----------------------|
|                                    | Weighted average<br>exercise price<br>HK\$ | Number of<br>options | Weighted average<br>exercise price<br>HK\$ | Number of<br>options |
| Beginning of year                  | 8.78                                       | 211,116,828          | 9.49                                       | 231,498,073          |
| Issued ( <i>note iii</i> )         | N/A                                        | –                    | 4.92                                       | 25,000,000           |
| Exercised ( <i>note iv</i> )       | 4.40                                       | (28,455,836)         | 4.39                                       | (27,150,827)         |
| Cancelled/Lapsed ( <i>note v</i> ) | 6.64                                       | (38,294,221)         | 19.06                                      | (18,230,418)         |
| End of year ( <i>note ii</i> )     | 10.20                                      | 144,366,771          | 8.78                                       | 211,116,828          |
| Exercisable at end of year         | 10.20                                      | 144,366,771          | 10.34                                      | 152,323,328          |

## 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<br>HK\$ | Number of options  |             |
|---------------------------------------|---------------------------------------------|---------------------------------------------|------------------------|--------------------|-------------|
|                                       |                                             |                                             |                        | 2007               | 2006        |
| August 17, 1999 to September 15, 1999 | August 17, 2000 to<br>August 17, 2004       | August 17, 2000 to<br>August 17, 2009       | 11.7800                | <b>13,569,593</b>  | 14,137,058  |
| October 25, 1999 to November 23, 1999 | October 25, 2000 to<br>October 25, 2004     | October 25, 2000 to<br>October 25, 2009     | 22.7600                | <b>1,724,000</b>   | 3,184,400   |
| February 8, 2000 to March 8, 2000     | February 8, 2001 to<br>February 8, 2003     | February 8, 2001 to<br>February 8, 2010     | 75.2400                | <b>86,700</b>      | 86,700      |
| August 26, 2000 to September 24, 2000 | May 26, 2001 to<br>May 26, 2005             | May 26, 2001 to<br>August 26, 2010          | 60.1200                | <b>6,549,600</b>   | 6,571,200   |
| October 27, 2000 to November 25, 2000 | March 15, 2001 to<br>March 15, 2005         | March 15, 2001 to<br>October 27, 2010       | 24.3600                | <b>8,742,906</b>   | 9,218,282   |
| January 22, 2001 to February 20, 2001 | January 22, 2001 to<br>January 22, 2005     | January 22, 2001 to<br>January 22, 2011     | 16.8400                | <b>11,171,039</b>  | 12,673,839  |
| February 20, 2001                     | February 8, 2002 to<br>February 8, 2004     | February 8, 2002 to<br>February 8, 2011     | 18.7600                | <b>86,700</b>      | 86,700      |
| April 17, 2001 to May 16, 2001        | May 26, 2001 to<br>May 26, 2005             | May 26, 2001 to<br>April 17, 2011           | 10.3000                | <b>1,068,840</b>   | 1,122,560   |
| July 16, 2001 to September 15, 2001   | July 16, 2002 to<br>July 16, 2004           | July 16, 2002 to<br>July 16, 2011           | 9.1600                 | <b>236,320</b>     | 272,680     |
| October 15, 2001 to November 13, 2001 | October 15, 2002 to<br>October 15, 2004     | October 15, 2002 to<br>October 15, 2011     | 8.6400                 | –                  | 120,000     |
| May 10, 2002                          | April 11, 2003 to<br>April 11, 2007         | April 11, 2003 to<br>April 11, 2012         | 7.9150                 | <b>86,700</b>      | 86,700      |
| August 1, 2002                        | August 1, 2003 to<br>August 1, 2005         | August 1, 2003 to<br>July 31, 2012          | 8.0600                 | <b>200,000</b>     | 200,000     |
| October 11, 2002                      | October 11, 2002                            | October 11, 2002 to<br>October 10, 2007     | 8.6165                 | –                  | 1,200,000   |
| November 13, 2002                     | November 13, 2003 to<br>November 13, 2005   | November 13, 2003 to<br>November 12, 2012   | 6.1500                 | <b>6,500,000</b>   | 6,680,000   |
| July 25, 2003                         | July 25, 2004 to<br>July 25, 2006           | July 25, 2004 to<br>July 23, 2013           | 4.3500                 | <b>52,911,873</b>  | 71,006,209  |
| September 16, 2003                    | September 16, 2004 to<br>September 16, 2006 | September 16, 2004 to<br>September 14, 2013 | 4.9000                 | <b>157,000</b>     | 177,000     |
| February 8, 2005                      | February 8, 2006 to<br>February 8, 2007     | February 8, 2006 to<br>February 7, 2009     | 4.4750                 | <b>41,275,500</b>  | 52,293,500  |
| September 1, 2005                     | September 1, 2006 to<br>September 1, 2008   | September 1, 2006 to<br>August 31, 2010     | 5.2500                 | –                  | 7,000,000   |
| September 15, 2006                    | September 15, 2007 to<br>September 15, 2009 | September 15, 2007 to<br>September 14, 2010 | 4.9240                 | –                  | 25,000,000  |
|                                       |                                             |                                             |                        | <b>144,366,771</b> | 211,116,828 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2007

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 32 EQUITY COMPENSATION BENEFITS (CONTINUED)

#### a. Share option schemes of the Company (continued)

##### ii. Terms of unexpired and unexercised share options at balance sheet date (continued)

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

| Range of exercise prices | 2007                                                         |                      | 2006                                                         |                      |
|--------------------------|--------------------------------------------------------------|----------------------|--------------------------------------------------------------|----------------------|
|                          | Weighted<br>average remaining<br>contractual life<br>(years) | Number of<br>options | Weighted<br>average remaining<br>contractual life<br>(years) | Number of<br>options |
| HK\$ 4.01 to 5.04        | 3.61                                                         | 94,344,373           | 4.51                                                         | 148,476,709          |
| 5.05 to 7.54             | 4.87                                                         | 6,500,000            | 4.74                                                         | 13,680,000           |
| 7.55 to 11.29            | 3.55                                                         | 1,591,860            | 3.05                                                         | 3,001,940            |
| 11.30 to 16.79           | 1.63                                                         | 13,569,593           | 2.63                                                         | 14,137,058           |
| 16.80 to 25.04           | 2.87                                                         | 21,724,645           | 3.82                                                         | 25,163,221           |
| 55.05 to 70.04           | 2.65                                                         | 6,549,600            | 3.65                                                         | 6,571,200            |
| 70.05 to 85.00           | 2.10                                                         | 86,700               | 3.10                                                         | 86,700               |
|                          |                                                              | 144,366,771          |                                                              | 211,116,828          |

##### iii. Details of share options granted during the year

| Vesting period                              | Exercise period                             | Exercise price<br>HK\$ | 2007                              |                      | 2006                              |                      |
|---------------------------------------------|---------------------------------------------|------------------------|-----------------------------------|----------------------|-----------------------------------|----------------------|
|                                             |                                             |                        | Consideration<br>received<br>HK\$ | Number of<br>options | Consideration<br>received<br>HK\$ | Number of<br>options |
| September 15, 2007 to<br>September 15, 2009 | September 15, 2007 to<br>September 14, 2010 | 4.9240                 | –                                 | –                    | –                                 | 25,000,000           |
|                                             |                                             |                        | –                                 | –                    | –                                 | 25,000,000           |

The fair value of share options granted during 2006 was determined using the trinomial option pricing model. The weighted average fair value of share options granted and the respective weighted average inputs and assumptions to the model were as follows:

|                                 | 2006     |
|---------------------------------|----------|
| Fair value at measurement date  | HK\$0.95 |
| Share price                     | HK\$4.92 |
| Exercise price                  | HK\$4.92 |
| Expected volatility             | 27.66%   |
| Expected option life (in years) | 4 years  |
| Expected dividends              | 3.78%    |
| Risk-free interest rate         | 3.94%    |

The expected volatility was based on statistical analysis of daily share prices over one year immediately preceding the grant date. Expected dividends were based on historical dividends. Risk-free interest rate was based on the market yield of Exchange Fund Notes with a term similar to the expected option life.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

## 32 EQUITY COMPENSATION BENEFITS (CONTINUED)

### a. Share option schemes of the Company (continued)

#### iv. Details of share options exercised during the year

| Exercise date                         | Exercise price<br>HK\$ | Market value<br>per share at<br>exercise date<br>HK\$ | 2007                         |                      | 2006                         |                      |
|---------------------------------------|------------------------|-------------------------------------------------------|------------------------------|----------------------|------------------------------|----------------------|
|                                       |                        |                                                       | Proceeds<br>received<br>HK\$ | Number of<br>options | Proceeds<br>received<br>HK\$ | Number of<br>options |
| January 4, 2006 to December 29, 2006  | 4.3500                 | 4.67 to 5.75                                          | –                            | –                    | 77,518,422                   | 17,820,327           |
| February 8, 2006 to November 28, 2006 | 4.4750                 | 4.65 to 5.75                                          | –                            | –                    | 41,695,813                   | 9,317,500            |
| February 8, 2006                      | 4.9000                 | 5.55                                                  | –                            | –                    | 63,700                       | 13,000               |
| January 4, 2007 to December 27, 2007  | 4.4750                 | 4.62 to 5.14                                          | <b>47,620,712</b>            | <b>10,641,500</b>    | –                            | –                    |
| January 5, 2007 to December 17, 2007  | 4.3500                 | 4.56 to 5.14                                          | <b>77,492,362</b>            | <b>17,814,336</b>    | –                            | –                    |
|                                       |                        |                                                       | <b>125,113,074</b>           | <b>28,455,836</b>    | 119,277,935                  | 27,150,827           |

The weighted average share price at the date of exercise for share options exercised during the year was HK\$4.85 (2006: HK\$5.28).

#### v. Details of share options cancelled or lapsed during the year

| Exercise period                          | Exercise price<br>HK\$ | Number of options |            |
|------------------------------------------|------------------------|-------------------|------------|
|                                          |                        | 2007              | 2006       |
| August 17, 2000 to August 17, 2009       | 11.7800                | <b>567,465</b>    | 2,275,067  |
| August 17, 2000 to October 25, 2009      | 22.7600                | <b>1,460,400</b>  | 186,000    |
| May 26, 2001 to August 26, 2010          | 60.1200                | <b>21,600</b>     | 3,316,000  |
| March 15, 2001 to October 27, 2010       | 24.3600                | <b>475,376</b>    | 771,508    |
| January 22, 2001 to January 22, 2011     | 16.8400                | <b>1,502,800</b>  | 3,694,613  |
| May 26, 2001 to April 17, 2011           | 10.3000                | <b>53,720</b>     | 24,480     |
| July 16, 2002 to July 16, 2011           | 9.1600                 | <b>36,360</b>     | 93,080     |
| October 15, 2002 to October 15, 2011     | 8.6400                 | <b>120,000</b>    | –          |
| October 11, 2002 to October 10, 2007     | 8.6165                 | <b>1,200,000</b>  | –          |
| November 13, 2003 to November 12, 2012   | 6.1500                 | <b>180,000</b>    | 140,000    |
| July 25, 2004 to July 23, 2013           | 4.3500                 | <b>280,000</b>    | 3,741,670  |
| September 16, 2004 to September 14, 2013 | 4.9000                 | <b>20,000</b>     | –          |
| February 8, 2006 to February 7, 2009     | 4.4750                 | <b>376,500</b>    | 3,988,000  |
| September 1, 2006 to August 31, 2010     | 5.2500                 | <b>7,000,000</b>  | –          |
| September 15, 2007 to September 14, 2010 | 4.9240                 | <b>25,000,000</b> | –          |
|                                          |                        | <b>38,294,221</b> | 18,230,418 |

**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. In May 2006, the Purchase Scheme was altered such that the directors of the Company are also eligible to participate in this scheme. The maximum aggregate number of shares that can be awarded under the two schemes is limited to 1% of the issued share capital of the Company (excluding shares that have already been transferred to employees on vesting).

A summary of movements in shares held under the share award schemes during the year is as follows:

|                                                                                       | Number of shares |           |
|---------------------------------------------------------------------------------------|------------------|-----------|
|                                                                                       | 2007             | 2006      |
| Beginning of year                                                                     | 6,500,000        | –         |
| Purchase from the market by the trustee at average market price of HK\$4.81 per share | –                | 5,073,600 |
| Awards of vested shares to employees                                                  | (3,980,891)      | –         |
| Forfeiture of lapsed shares                                                           | –                | 1,426,400 |
| End of year                                                                           | 2,519,109        | 6,500,000 |

The fair value of shares awarded under the Purchase Scheme in 2006 at the measurement date was HK\$4.90, which was measured by the quoted market price of the shares at grant date.

**c. Share option schemes of PCPD**

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

Under the 2005 PCPD Scheme, the board of directors of PCPD may, at its discretion, grant share options to any eligible person to subscribe for shares in PCPD subject to the terms and conditions stipulated in the 2005 PCPD Scheme. The exercise price of the options under the 2005 PCPD Scheme is determined by the board of directors of PCPD at its absolute discretion but in any event shall not be less than the highest of (i) the closing price of the shares of PCPD as stated in the daily quotations sheet of the Stock Exchange on the date of grant; (ii) the average closing price of the shares of PCPD as stated in the daily quotations sheet of the Stock Exchange for the five days last preceding the date of grant on which days it has been possible to trade shares on the Stock Exchange; and (iii) the nominal value of the share of PCPD on the date of grant. The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2005 PCPD Scheme and other share option schemes of PCPD must not exceed 30% of the shares in issue from time to time. In addition, the maximum number of shares of PCPD in respect of which options may be granted under the 2005 PCPD Scheme shall not (when aggregated with any shares subject to any grants made after May 23, 2005 pursuant to any other share option schemes of PCPD) exceed 10% of the issued share capital of PCPD on May 23, 2005 (or some other date if renewal of this limit is approved by shareholders).

## 32 EQUITY COMPENSATION BENEFITS (CONTINUED)

### c. Share option schemes of PCPD (continued)

No share options have been granted under the 2005 PCPD Scheme during the year ended December 31, 2007 and no share options were outstanding at December 31, 2007 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

|                            | 2007                                       |                      | 2006                                       |                      |
|----------------------------|--------------------------------------------|----------------------|--------------------------------------------|----------------------|
|                            | Weighted average<br>exercise price<br>HK\$ | Number of<br>options | Weighted average<br>exercise price<br>HK\$ | Number of<br>options |
| Beginning of year          | 2.375                                      | 10,000,000           | 2.375                                      | 10,000,000           |
| Exercised (note iii)       | 2.375                                      | (5,000,000)          | N/A                                        | –                    |
| End of year (note ii)      | 2.375                                      | 5,000,000            | 2.375                                      | 10,000,000           |
| Exercisable at end of year | 2.375                                      | 5,000,000            | 2.375                                      | 10,000,000           |

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

| Date of grant     | Vesting period    | Exercise period                           | Exercise price<br>HK\$ | Number of options |            |
|-------------------|-------------------|-------------------------------------------|------------------------|-------------------|------------|
|                   |                   |                                           |                        | 2007              | 2006       |
| December 20, 2004 | December 20, 2004 | December 20, 2004 to<br>December 19, 2014 | 2.375                  | 5,000,000         | 10,000,000 |
|                   |                   |                                           |                        | 5,000,000         | 10,000,000 |

The options outstanding at December 31, 2007 had a weighted average remaining contractual life of 7 years (2006: 8 years).

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

#### iii. Details of share options exercised during the year

| Exercise date | Exercise price<br>HK\$ | Market value<br>per share at<br>exercise date<br>HK\$ | 2007                         |                      | 2006                         |                      |
|---------------|------------------------|-------------------------------------------------------|------------------------------|----------------------|------------------------------|----------------------|
|               |                        |                                                       | Proceeds<br>received<br>HK\$ | Number of<br>options | Proceeds<br>received<br>HK\$ | Number of<br>options |
| May 17, 2007  | 2.375                  | 2.46                                                  | 11,875,000                   | 5,000,000            | –                            | –                    |
|               |                        |                                                       | 11,875,000                   | 5,000,000            | –                            | –                    |

The weighted average share price at the date of exercise for share options exercised during the year was HK\$2.46 (2006: Nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2007

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 33 RESERVES/(DEFICIT)

In HK\$ million

2007

|                                                                   | Share<br>premium | Special<br>capital<br>reserve | Treasury<br>stock | Employee<br>share-based<br>compensation<br>reserve | Convertible<br>note and<br>bonds<br>reserve | Currency<br>translation<br>reserve | Hedging<br>reserve | Available-<br>for-sale<br>financial<br>assets<br>reserve | (Deficit)/<br>Retained<br>profits | Total   |
|-------------------------------------------------------------------|------------------|-------------------------------|-------------------|----------------------------------------------------|---------------------------------------------|------------------------------------|--------------------|----------------------------------------------------------|-----------------------------------|---------|
| <b>THE GROUP</b>                                                  |                  |                               |                   |                                                    |                                             |                                    |                    |                                                          |                                   |         |
| At January 1, 2007                                                | 7,791            | 21,254                        | (37)              | 213                                                | 183                                         | 87                                 | (447)              | 79                                                       | (30,381)                          | (1,258) |
| Exercise of employee share options                                | 118              | -                             | -                 | -                                                  | -                                           | -                                  | -                  | -                                                        | -                                 | 118     |
| Premium arising from exercise of<br>employee share options        | 59               | -                             | -                 | (59)                                               | -                                           | -                                  | -                  | -                                                        | -                                 | -       |
| Awards of vested shares under share<br>award schemes to employees | -                | -                             | 19                | (19)                                               | -                                           | -                                  | -                  | -                                                        | -                                 | -       |
| Employee share-based compensation                                 | -                | -                             | -                 | 8                                                  | -                                           | -                                  | -                  | -                                                        | -                                 | 8       |
| Translation exchange differences                                  | -                | -                             | -                 | -                                                  | -                                           | 240                                | -                  | -                                                        | -                                 | 240     |
| Profit for the year                                               | -                | -                             | -                 | -                                                  | -                                           | -                                  | -                  | -                                                        | 1,503                             | 1,503   |
| Dividend paid in respect of the previous year                     | -                | -                             | -                 | -                                                  | -                                           | -                                  | -                  | -                                                        | (813)                             | (813)   |
| Dividend declared and paid in<br>respect of the current year      | -                | -                             | -                 | -                                                  | -                                           | -                                  | -                  | -                                                        | (440)                             | (440)   |
| Available-for-sale financial assets:                              |                  |                               |                   |                                                    |                                             |                                    |                    |                                                          |                                   |         |
| – changes in fair value                                           | -                | -                             | -                 | -                                                  | -                                           | -                                  | -                  | 25                                                       | -                                 | 25      |
| – transfer to income statement on disposal                        | -                | -                             | -                 | -                                                  | -                                           | -                                  | -                  | (95)                                                     | -                                 | (95)    |
| – transfer to income statement on impairment                      | -                | -                             | -                 | -                                                  | -                                           | -                                  | -                  | 7                                                        | -                                 | 7       |
| Cash flow hedges:                                                 |                  |                               |                   |                                                    |                                             |                                    |                    |                                                          |                                   |         |
| – effective portion of changes in fair value                      | -                | -                             | -                 | -                                                  | -                                           | -                                  | 631                | -                                                        | -                                 | 631     |
| – transfer from equity to income statement                        | -                | -                             | -                 | -                                                  | -                                           | -                                  | (69)               | -                                                        | -                                 | (69)    |
| Redemption of convertible bonds                                   | -                | -                             | -                 | -                                                  | (183)                                       | -                                  | -                  | -                                                        | 183                               | -       |
| At December 31, 2007                                              | 7,968            | 21,254                        | (18)              | 143                                                | -                                           | 327                                | 115                | 16                                                       | (29,948)                          | (143)   |
| <b>THE COMPANY</b>                                                |                  |                               |                   |                                                    |                                             |                                    |                    |                                                          |                                   |         |
| At January 1, 2007                                                | 7,791            | 21,254                        | -                 | 206                                                | -                                           | -                                  | -                  | -                                                        | 4,221                             | 33,472  |
| Exercise of employee share options                                | 118              | -                             | -                 | -                                                  | -                                           | -                                  | -                  | -                                                        | -                                 | 118     |
| Premium arising from exercise of<br>employee share options        | 59               | -                             | -                 | (59)                                               | -                                           | -                                  | -                  | -                                                        | -                                 | -       |
| Employee share-based compensation                                 | -                | -                             | -                 | (5)                                                | -                                           | -                                  | -                  | -                                                        | -                                 | (5)     |
| Profit for the year                                               | -                | -                             | -                 | -                                                  | -                                           | -                                  | -                  | -                                                        | 22,382                            | 22,382  |
| Dividend paid in respect of the previous year                     | -                | -                             | -                 | -                                                  | -                                           | -                                  | -                  | -                                                        | (813)                             | (813)   |
| Dividend declared and paid in respect of<br>the current year      | -                | -                             | -                 | -                                                  | -                                           | -                                  | -                  | -                                                        | (440)                             | (440)   |
| At December 31, 2007                                              | 7,968            | 21,254                        | -                 | 142                                                | -                                           | -                                  | -                  | -                                                        | 25,350                            | 54,714  |

### 33 RESERVES/(DEFICIT) (CONTINUED)

In HK\$ million

|                                                           | 2006          |                         |                |                                           |                                    |                              |                 |                                             |                             |         |
|-----------------------------------------------------------|---------------|-------------------------|----------------|-------------------------------------------|------------------------------------|------------------------------|-----------------|---------------------------------------------|-----------------------------|---------|
|                                                           | Share premium | Special capital reserve | Treasury stock | Employee share-based compensation reserve | Convertible note and bonds reserve | Currency translation reserve | Hedging reserve | Available-for-sale financial assets reserve | (Deficit)/ Retained profits | Total   |
| <b>THE GROUP</b>                                          |               |                         |                |                                           |                                    |                              |                 |                                             |                             |         |
| At January 1, 2006                                        | 7,622         | 22,255                  | –              | 223                                       | 183                                | (55)                         | –               | 89                                          | (31,388)                    | (1,071) |
| Exercise of employee share options                        | 112           | –                       | –              | –                                         | –                                  | –                            | –               | –                                           | –                           | 112     |
| Premium arising from exercise of employee share options   | 57            | –                       | –              | (57)                                      | –                                  | –                            | –               | –                                           | –                           | –       |
| Employee share-based compensation                         | –             | –                       | –              | 47                                        | –                                  | –                            | –               | –                                           | –                           | 47      |
| Forfeiture of lapsed shares under share award schemes     | –             | –                       | (13)           | –                                         | –                                  | –                            | –               | –                                           | –                           | (13)    |
| Purchase of shares under share award schemes              | –             | –                       | (24)           | –                                         | –                                  | –                            | –               | –                                           | –                           | (24)    |
| Translation exchange differences                          | –             | –                       | –              | –                                         | –                                  | 142                          | –               | –                                           | –                           | 142     |
| Profit for the year                                       | –             | –                       | –              | –                                         | –                                  | –                            | –               | –                                           | 1,252                       | 1,252   |
| Dividend paid in respect of the previous year             | –             | (634)                   | –              | –                                         | –                                  | –                            | –               | –                                           | (174)                       | (808)   |
| Dividend declared and paid in respect of the current year | –             | (367)                   | –              | –                                         | –                                  | –                            | –               | –                                           | (71)                        | (438)   |
| Available-for-sale financial assets:                      |               |                         |                |                                           |                                    |                              |                 |                                             |                             |         |
| – changes in fair value                                   | –             | –                       | –              | –                                         | –                                  | –                            | –               | 78                                          | –                           | 78      |
| – transfer to income statement on disposal                | –             | –                       | –              | –                                         | –                                  | –                            | –               | (88)                                        | –                           | (88)    |
| Cash flow hedges:                                         |               |                         |                |                                           |                                    |                              |                 |                                             |                             |         |
| – effective portion of changes in fair value              | –             | –                       | –              | –                                         | –                                  | –                            | (428)           | –                                           | –                           | (428)   |
| – transfer from equity to income statement                | –             | –                       | –              | –                                         | –                                  | –                            | (19)            | –                                           | –                           | (19)    |
| At December 31, 2006                                      | 7,791         | 21,254                  | (37)           | 213                                       | 183                                | 87                           | (447)           | 79                                          | (30,381)                    | (1,258) |
| <b>THE COMPANY</b>                                        |               |                         |                |                                           |                                    |                              |                 |                                             |                             |         |
| At January 1, 2006                                        | 7,622         | 22,255                  | –              | 223                                       | –                                  | –                            | –               | –                                           | 174                         | 30,274  |
| Exercise of employee share options                        | 112           | –                       | –              | –                                         | –                                  | –                            | –               | –                                           | –                           | 112     |
| Premium arising from exercise of employee share options   | 57            | –                       | –              | (57)                                      | –                                  | –                            | –               | –                                           | –                           | –       |
| Employee share-based compensation                         | –             | –                       | –              | 40                                        | –                                  | –                            | –               | –                                           | –                           | 40      |
| Profit for the year                                       | –             | –                       | –              | –                                         | –                                  | –                            | –               | –                                           | 4,292                       | 4,292   |
| Dividend paid in respect of the previous year             | –             | (634)                   | –              | –                                         | –                                  | –                            | –               | –                                           | (174)                       | (808)   |
| Dividend declared and paid in respect of the current year | –             | (367)                   | –              | –                                         | –                                  | –                            | –               | –                                           | (71)                        | (438)   |
| At December 31, 2006                                      | 7,791         | 21,254                  | –              | 206                                       | –                                  | –                            | –               | –                                           | 4,221                       | 33,472  |

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, 2007, the total cash set aside was approximately HK\$106 million (2006: HK\$4,301 million) and has been recorded under “Restricted cash” in the balance sheet of the Company (see note 26(b)).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2007

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 34 DEFERRED TAXATION

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

| In HK\$ million                                                           |  | 2007                               |                                                                             |                        |                              |                                     |            |        |       |
|---------------------------------------------------------------------------|--|------------------------------------|-----------------------------------------------------------------------------|------------------------|------------------------------|-------------------------------------|------------|--------|-------|
|                                                                           |  | Accelerated<br>tax<br>depreciation | Valuation<br>adjustment<br>resulting from<br>acquisition of<br>subsidiaries | Leasing<br>partnership | Revaluation<br>of properties | Deferred<br>installation<br>revenue | Tax losses | Others | Total |
| THE GROUP                                                                 |  |                                    |                                                                             |                        |                              |                                     |            |        |       |
| Beginning of year                                                         |  | 1,644                              | 366                                                                         | 173                    | 146                          | (130)                               | (170)      | (24)   | 2,005 |
| Charged/(Credited) to consolidated<br>income statement (note 12(a))       |  | 3                                  | (24)                                                                        | (79)                   | (34)                         | 84                                  | (35)       | (13)   | (98)  |
| Disposal of subsidiaries                                                  |  | -                                  | -                                                                           | -                      | -                            | -                                   | -          | 4      | 4     |
| Exchange differences                                                      |  | 16                                 | -                                                                           | -                      | 9                            | -                                   | -          | (2)    | 23    |
| End of year                                                               |  | 1,663                              | 342                                                                         | 94                     | 121                          | (46)                                | (205)      | (35)   | 1,934 |
| In HK\$ million                                                           |  | 2006                               |                                                                             |                        |                              |                                     |            |        |       |
|                                                                           |  | Accelerated<br>tax<br>depreciation | Valuation<br>adjustment<br>resulting from<br>acquisition of<br>subsidiaries | Leasing<br>partnership | Revaluation<br>of properties | Deferred<br>installation<br>revenue | Tax losses | Others | Total |
| THE GROUP                                                                 |  |                                    |                                                                             |                        |                              |                                     |            |        |       |
| Beginning of year                                                         |  | 1,634                              | 394                                                                         | 224                    | 144                          | (166)                               | (11)       | (42)   | 2,177 |
| Charged/(Credited) to consolidated<br>income statement (note 12(a))       |  | 3                                  | (28)                                                                        | (51)                   | (3)                          | 36                                  | (159)      | 18     | (184) |
| Exchange differences                                                      |  | 7                                  | -                                                                           | -                      | 5                            | -                                   | -          | -      | 12    |
| End of year                                                               |  | 1,644                              | 366                                                                         | 173                    | 146                          | (130)                               | (170)      | (24)   | 2,005 |
| In HK\$ million                                                           |  | The Group                          |                                                                             |                        |                              |                                     |            |        |       |
|                                                                           |  | 2007                               |                                                                             |                        |                              |                                     |            |        | 2006  |
| Net deferred tax assets recognized in the consolidated balance sheet      |  | (216)                              |                                                                             |                        |                              |                                     |            |        | (174) |
| Net deferred tax liabilities recognized in the consolidated balance sheet |  | 2,150                              |                                                                             |                        |                              |                                     |            |        | 2,179 |
|                                                                           |  | 1,934                              |                                                                             |                        |                              |                                     |            |        | 2,005 |

b. During the year, deferred tax assets of HK\$36 million (2006: HK\$170 million) have been recognized for tax loss carry-forward to the extent that realization of the related tax benefit through utilization against future taxable profits is probable, by considering the future taxable income and ongoing prudent and feasible tax planning strategies. The Group has unutilized estimated tax losses for which no deferred tax assets have been recognized of HK\$23,430 million (2006: HK\$21,885 million) to carry forward for deduction against future taxable income. Estimated tax losses of HK\$1,325 million (2006: HK\$1,078 million) and HK\$225 million (2006: HK\$496 million) will expire within 1-5 years and after 5 years from December 31, 2007 respectively. The remaining portion of the tax losses, mainly relating to Hong Kong companies, can be carried forward indefinitely.

### 35 MOBILE CARRIER LICENCE FEE LIABILITIES

As at December 31, 2007, the Group had mobile carrier licence fee liabilities repayable as follows:

| In HK\$ million                                                               | The Group                                         |                                                                 |                                 |                                                   |                                                                 |                                 |
|-------------------------------------------------------------------------------|---------------------------------------------------|-----------------------------------------------------------------|---------------------------------|---------------------------------------------------|-----------------------------------------------------------------|---------------------------------|
|                                                                               | Present<br>value of<br>the minimum<br>annual fees | 2007<br>Interest<br>expense<br>relating to<br>future<br>periods | Total<br>minimum<br>annual fees | Present<br>value of<br>the minimum<br>annual fees | 2006<br>Interest<br>expense<br>relating to<br>future<br>periods | Total<br>minimum<br>annual fees |
| Repayable within a period                                                     |                                                   |                                                                 |                                 |                                                   |                                                                 |                                 |
| – not exceeding one year                                                      | 67                                                | 7                                                               | 74                              | 58                                                | 7                                                               | 65                              |
| – over one year, but not exceeding<br>two years                               | 71                                                | 14                                                              | 85                              | 60                                                | 14                                                              | 74                              |
| – over two years, but not exceeding<br>five years                             | 205                                               | 101                                                             | 306                             | 186                                               | 91                                                              | 277                             |
| – over five years                                                             | 256                                               | 288                                                             | 544                             | 293                                               | 362                                                             | 655                             |
|                                                                               | 599                                               | 410                                                             | 1,009                           | 597                                               | 474                                                             | 1,071                           |
| Less: Amounts repayable within one year<br>included under current liabilities | (67)                                              | (7)                                                             | (74)                            | (58)                                              | (7)                                                             | (65)                            |
|                                                                               | 532                                               | 403                                                             | 935                             | 539                                               | 467                                                             | 1,006                           |

### 36 NET LEASE PAYMENTS RECEIVABLE

A company within the Group is a limited partner in a number of limited partnerships, which own and lease assets to third parties.

| In HK\$ million                                                                                                                                            | The Group |      |
|------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|------|
|                                                                                                                                                            | 2007      | 2006 |
| The net investment in relation to these finance leases comprises:                                                                                          |           |      |
| Net lease payments receivable                                                                                                                              | 203       | 203  |
| Less: Current portion of net lease payments receivable (included in “Prepayments,<br>deposits and other current assets” in the consolidated balance sheet) | (112)     | –    |
|                                                                                                                                                            | 91        | 203  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2007

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 37 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

#### a. Reconciliation of profit before taxation to net cash generated from operating activities

| In HK\$ million                                                                            | The Group      |         |
|--------------------------------------------------------------------------------------------|----------------|---------|
|                                                                                            | 2007           | 2006    |
| Profit before taxation                                                                     | <b>2,807</b>   | 2,552   |
| Adjustment for:                                                                            |                |         |
| Write back of impairment loss on interest in an associate                                  | (1)            | –       |
| Employee share-based compensation                                                          | 8              | 47      |
| Forfeiture of lapsed shares under share award schemes                                      | –              | (13)    |
| Provision for inventory obsolescence                                                       | 1              | 5       |
| Interest income                                                                            | (429)          | (732)   |
| Interest expense                                                                           | <b>1,617</b>   | 1,898   |
| Finance charges                                                                            | <b>41</b>      | 110     |
| Depreciation of property, plant and equipment                                              | <b>2,795</b>   | 2,776   |
| Net realized and unrealized gains on financial assets at fair value through profit or loss | (8)            | (17)    |
| Net realized gains on disposal of available-for-sale financial assets                      | (79)           | (88)    |
| Net realized and unrealized fair value (gains)/losses on derivative financial instruments  | (62)           | 110     |
| Net gain on cash flow hedging instruments transferred from equity                          | (9)            | –       |
| Fair value gains on investment properties                                                  | (3)            | (1)     |
| Provision for impairment of investments                                                    | <b>60</b>      | 40      |
| Losses on property, plant and equipment                                                    | <b>7</b>       | 11      |
| Provision for rental guarantee                                                             | <b>36</b>      | –       |
| (Gain)/loss on disposal of property, plant and equipment                                   | (7)            | 25      |
| Impairment loss on goodwill                                                                | <b>58</b>      | –       |
| Impairment loss for doubtful debts                                                         | <b>218</b>     | 106     |
| Other impairment loss                                                                      | <b>20</b>      | 25      |
| Dividend income                                                                            | –              | (6)     |
| Write back of provision for loss on legal claims                                           | –              | (105)   |
| Amortization of intangible assets                                                          | <b>445</b>     | 232     |
| Amortization of land lease premium                                                         | <b>30</b>      | 28      |
| Share of results of associates and jointly controlled companies                            | (13)           | (37)    |
| Exchange losses                                                                            | <b>52</b>      | 47      |
| Decrease/(Increase) in operating assets                                                    |                |         |
| – interest in leasehold land for development                                               | –              | (260)   |
| – properties held for/under development and for sale                                       | <b>(6,698)</b> | 4,044   |
| – inventories                                                                              | <b>(314)</b>   | (15)    |
| – accounts receivable                                                                      | <b>(356)</b>   | (678)   |
| – prepayments, deposits and other current assets                                           | <b>(573)</b>   | 12      |
| – sales proceeds held in stakeholders' accounts                                            | <b>1,047</b>   | 821     |
| – restricted cash                                                                          | <b>251</b>     | 765     |
| – amounts due from related companies                                                       | <b>35</b>      | 90      |
| – other non-current assets                                                                 | <b>(128)</b>   | (209)   |
| Increase/(Decrease) in operating liabilities                                               |                |         |
| – accruals, accounts payable, other payables and deferred income                           | <b>(160)</b>   | (194)   |
| – amounts payable to the Government under the Cyberport Project Agreement                  | <b>3,414</b>   | (3,229) |
| – gross amount due to customers for contract work                                          | –              | (4)     |
| – amounts due to related companies                                                         | <b>(347)</b>   | (267)   |
| – other long-term liabilities                                                              | <b>33</b>      | (19)    |
| – advances from customers                                                                  | <b>2,016</b>   | (832)   |
| <b>CASH GENERATED FROM OPERATIONS</b>                                                      | <b>5,804</b>   | 7,038   |

### 37 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

#### a. Reconciliation of profit before taxation to net cash generated from operating activities (continued)

| In HK\$ million                                     | The Group<br>2007 | 2006    |
|-----------------------------------------------------|-------------------|---------|
| <b>CASH GENERATED FROM OPERATIONS</b>               | <b>5,804</b>      | 7,038   |
| Interest received                                   | <b>433</b>        | 713     |
| Income tax paid, net of tax refund                  |                   |         |
| – Hong Kong profits tax paid                        | <b>(1,082)</b>    | (1,217) |
| – overseas profits tax paid                         | <b>(34)</b>       | (12)    |
| <b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b> | <b>5,121</b>      | 6,522   |

#### b. Acquisition of the business of a subsidiary

| In HK\$ million                                                                                                         | The Group<br>2007 | 2006 |
|-------------------------------------------------------------------------------------------------------------------------|-------------------|------|
| Net assets acquired:                                                                                                    |                   |      |
| Property, plant and equipment                                                                                           | <b>12</b>         | –    |
| Other non-current assets                                                                                                | <b>2</b>          | –    |
| Accounts receivable, deposits, prepayments and other current assets                                                     | <b>2</b>          | –    |
| Trade payable, other payable and accrued charges                                                                        | <b>(3)</b>        | –    |
|                                                                                                                         | <b>13</b>         | –    |
| Goodwill on acquisition                                                                                                 | <b>10</b>         | –    |
|                                                                                                                         | <b>23</b>         | –    |
| Satisfied by:                                                                                                           |                   |      |
| Cash                                                                                                                    | <b>23</b>         | –    |
| Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of the business of a subsidiary: |                   |      |
| Cash                                                                                                                    | <b>23</b>         | –    |
| Net cash outflow in respect of acquisition of the business of a subsidiary                                              | <b>23</b>         | –    |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2007

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 37 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

#### c. Disposal of subsidiaries

| In HK\$ million                                                                                     | The Group<br>2007 | 2006 |
|-----------------------------------------------------------------------------------------------------|-------------------|------|
| Net assets disposed of:                                                                             |                   |      |
| Property, plant and equipment                                                                       | 72                | —    |
| Goodwill                                                                                            | 78                | —    |
| Available-for-sale financial assets                                                                 | 48                | —    |
| Deferred tax assets                                                                                 | 4                 | —    |
| Inventories                                                                                         | 3                 | —    |
| Accounts receivable, prepayments, deposits and other current assets                                 | 19                | —    |
| Financial assets at fair value through profit or loss                                               | 33                | —    |
| Cash and bank balances                                                                              | 53                | —    |
| Accounts payables, accruals and other payables                                                      | (16)              | —    |
| Advances from customers                                                                             | (19)              | —    |
| Minority interests                                                                                  | (72)              | —    |
| Exchange reserve                                                                                    | 15                | —    |
|                                                                                                     | 218               | —    |
| Satisfied by:                                                                                       |                   |      |
| Cash                                                                                                | 218               | —    |
| Analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries: |                   |      |
| Cash                                                                                                | 218               | —    |
| Cash and bank balances disposed of                                                                  | (53)              | —    |
| Net cash inflow in respect of disposal of subsidiaries                                              | 165               | —    |

#### d. Analysis of cash and cash equivalents

| In HK\$ million                             | The Group |         | The Company |         |
|---------------------------------------------|-----------|---------|-------------|---------|
|                                             | 2007      | 2006    | 2007        | 2006    |
| Cash and bank balances                      | 4,367     | 10,100  | 142         | 4,520   |
| Bank overdrafts                             | (7)       | (21)    | —           | —       |
| Restricted cash                             | (682)     | (5,128) | (106)       | (4,301) |
| Cash and cash equivalents as at December 31 | 3,678     | 4,951   | 36          | 219     |

### 38 CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders, to support the Group's stability and growth; and to earn a margin commensurately with the level of business and market risks in the Group's operation.

The Group monitors capital by reviewing the level of capital that is at the disposal of the Group ("adjusted capital"), taking into consideration the future capital requirements of the Group, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. Adjusted capital comprises all components of equity, other than currency translation reserve, hedging reserve relating to cash flow hedges and available-for-sale financial assets reserve.

The adjusted capital at December 31, 2007 and 2006 was as follows:

| In HK\$ million                             | The Group<br>2007 | 2006  |
|---------------------------------------------|-------------------|-------|
| Total equity                                | <b>4,351</b>      | 2,899 |
| Excluding:                                  |                   |       |
| Currency translation reserve                | <b>(327)</b>      | (87)  |
| Hedging reserve                             | <b>(115)</b>      | 447   |
| Available-for-sale financial assets reserve | <b>(16)</b>       | (79)  |
| Adjusted capital                            | <b>3,893</b>      | 3,180 |

The increase in adjusted capital during 2007 is due to the increase in retained earnings and reserves.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements, except for the debt covenant requirement of the loan agreements with external parties and the minimum capital requirement of a subsidiary regulated by Bermuda Monetary Authority.

### 39 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, and market (including foreign currency, interest rate) risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities. Exposures to these risks are controlled by the Group's financial management policies and practices described below.

#### a. Credit risk

The Group's credit risk is primarily attributable to accounts receivable, amounts due from related companies, investments, 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.

Accounts receivable in respect of properties sold is payable by the purchasers pursuant to the terms of the sales contracts. Other accounts receivable has 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. 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.

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, 2007, the amounts due from related companies and other receivables are fully performing.

Investments, derivative financial instruments, interests receivable, net lease payments receivable and cash transactions are executed with financial institutions or investment counterparties with sound credit ratings and the Group does not expect any significant counterparty risk. Moreover, credit limits are set for individual counterparties and periodic reviews are conducted to ensure that the limits are strictly followed.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2007

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 39 FINANCIAL INSTRUMENTS (CONTINUED)

#### a. Credit risk (continued)

The Group does not have a significant exposure to any individual debtors or counterparties.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet. Except for the guarantees given by the Group as disclosed in note 41, the Group does not provide any other guarantees which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from accounts receivable are set out in note 26(e).

#### b. Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with debt covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. Management believes there is no liquidity risk as the Group has sufficient committed facilities to fund its operations and debt servicing requirements.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

In HK\$ million

The Group  
2007

|                                                                           | Within 1 year<br>or on demand | More than<br>1 year but<br>within 2 years | More than<br>2 years but<br>within 5 years | More than<br>5 years | Total<br>contractual<br>undiscounted<br>cash flow | Carrying<br>amount |
|---------------------------------------------------------------------------|-------------------------------|-------------------------------------------|--------------------------------------------|----------------------|---------------------------------------------------|--------------------|
| Current liabilities                                                       |                               |                                           |                                            |                      |                                                   |                    |
| Short-term borrowings                                                     | 10,198                        | –                                         | –                                          | –                    | 10,198                                            | 10,174             |
| Derivative financial instruments                                          | 65                            | (12)                                      | (46)                                       | (83)                 | (76)                                              | 13                 |
| Accounts payable                                                          | 1,264                         | –                                         | –                                          | –                    | 1,264                                             | 1,264              |
| Accruals and other payables                                               | 4,785                         | –                                         | –                                          | –                    | 4,785                                             | 4,785              |
| Amount payable to the Government under<br>the Cyberport Project Agreement | 5,178                         | –                                         | –                                          | –                    | 5,178                                             | 5,178              |
| Mobile carrier licence fee liabilities                                    | 74                            | –                                         | –                                          | –                    | 74                                                | 67                 |
| Amounts due to related companies                                          | 539                           | –                                         | –                                          | –                    | 539                                               | 539                |
| Gross amount due to customers for contract work                           | 7                             | –                                         | –                                          | –                    | 7                                                 | 7                  |
|                                                                           | 22,110                        | (12)                                      | (46)                                       | (83)                 | 21,969                                            | 22,027             |
| Non-current liabilities                                                   |                               |                                           |                                            |                      |                                                   |                    |
| Long-term borrowings                                                      | 1,063                         | 1,063                                     | 10,315                                     | 8,469                | 20,910                                            | 15,505             |
| Amount payable to the Government under<br>the Cyberport Project Agreement | –                             | 1,741                                     | –                                          | –                    | 1,741                                             | 1,741              |
| Mobile carrier licence fee liabilities                                    | –                             | 85                                        | 306                                        | 544                  | 935                                               | 532                |
| Other long-term liabilities                                               | 38                            | 101                                       | 52                                         | 59                   | 250                                               | 205                |
|                                                                           | 1,101                         | 2,990                                     | 10,673                                     | 9,072                | 23,836                                            | 17,983             |
| Total                                                                     | 23,211                        | 2,978                                     | 10,627                                     | 8,989                | 45,805                                            | 40,010             |

### 39 FINANCIAL INSTRUMENTS (CONTINUED)

#### b. Liquidity risk (continued)

| In HK\$ million                                                           | The Group<br>2006             |                                                           |                                            |                               |                                                           | Carrying<br>amount |
|---------------------------------------------------------------------------|-------------------------------|-----------------------------------------------------------|--------------------------------------------|-------------------------------|-----------------------------------------------------------|--------------------|
|                                                                           | Within 1 year<br>or on demand | More than<br>1 year but<br>within 2 years                 | More than<br>2 years but<br>within 5 years | More than<br>5 years          | Total<br>contractual<br>undiscounted<br>cash flow         |                    |
| Current liabilities                                                       |                               |                                                           |                                            |                               |                                                           |                    |
| Short-term borrowings                                                     | 14,047                        | –                                                         | –                                          | –                             | 14,047                                                    | 13,995             |
| Derivative financial instruments                                          | (63)                          | (62)                                                      | (212)                                      | (212)                         | (549)                                                     | 555                |
| Accounts payable                                                          | 1,022                         | –                                                         | –                                          | –                             | 1,022                                                     | 1,022              |
| Accruals and other payables                                               | 4,989                         | –                                                         | –                                          | –                             | 4,989                                                     | 4,989              |
| Amount payable to the Government under<br>the Cyberport Project Agreement | 1,914                         | –                                                         | –                                          | –                             | 1,914                                                     | 1,914              |
| Mobile carrier licence fee liabilities                                    | 65                            | –                                                         | –                                          | –                             | 65                                                        | 58                 |
| Amounts due to related companies                                          | 886                           | –                                                         | –                                          | –                             | 886                                                       | 886                |
| Gross amount due to customers for contract work                           | 7                             | –                                                         | –                                          | –                             | 7                                                         | 7                  |
|                                                                           | 22,867                        | (62)                                                      | (212)                                      | (212)                         | 22,381                                                    | 23,426             |
| Non-current liabilities                                                   |                               |                                                           |                                            |                               |                                                           |                    |
| Long-term borrowings                                                      | 1,059                         | 1,059                                                     | 10,902                                     | 8,876                         | 21,896                                                    | 15,438             |
| Amount payable to the Government under the<br>Cyberport Project Agreement | –                             | 1,591                                                     | –                                          | –                             | 1,591                                                     | 1,591              |
| Mobile carrier licence fee liabilities                                    | –                             | 74                                                        | 277                                        | 655                           | 1,006                                                     | 539                |
| Other long-term liabilities                                               | 10                            | 11                                                        | 20                                         | 25                            | 66                                                        | 97                 |
|                                                                           | 1,069                         | 2,735                                                     | 11,199                                     | 9,556                         | 24,559                                                    | 17,665             |
| Total                                                                     | 23,936                        | 2,673                                                     | 10,987                                     | 9,344                         | 46,940                                                    | 41,091             |
|                                                                           |                               |                                                           |                                            |                               |                                                           |                    |
| In HK\$ million                                                           | The Company                   |                                                           |                                            |                               |                                                           |                    |
|                                                                           | Within 1 year<br>or on demand | 2007<br>Total<br>contractual<br>undiscounted<br>cash flow | Carrying<br>amount                         | Within 1 year<br>or on demand | 2006<br>Total<br>contractual<br>undiscounted<br>cash flow | Carrying<br>amount |
| Current liabilities                                                       |                               |                                                           |                                            |                               |                                                           |                    |
| Short-term borrowings                                                     | –                             | –                                                         | –                                          | 6,300                         | 6,300                                                     | 6,300              |
| Derivative financial instruments                                          | –                             | –                                                         | –                                          | (1)                           | (1)                                                       | 6                  |
| Total                                                                     | –                             | –                                                         | –                                          | 6,299                         | 6,299                                                     | 6,306              |

### 39 FINANCIAL INSTRUMENTS (CONTINUED)

#### c. Market risk

Market risk composed of foreign currency, interest rate and equity price exposure deriving from the Group's operation, investment and funding activities. As a matter of policy, the Group enters into currency forward contracts, interest rate and currency swap contracts, forward rate agreements, option contracts and other financial instruments to manage its exposure to market risk directly related to its operations and financing. The Group does not undertake any speculative trading activities in connection with these financial instruments or enter into or acquire market risk sensitive instruments for trading purposes.

The Finance and Management Committee, a subcommittee of the Executive Committee of the Board, determines the appropriate risk management activities with the aim of prudently manage the market risk associated with transactions entered into in the normal course of the business.

All treasury risk management activities are carried out in accordance with policies and guidelines approved by the Finance and Management Committee and the Executive Committee, which are reviewed on a regular basis. Early termination and amendments to the terms of the transaction would typically occur when there are changes in the underlying assets or liabilities or in the risk management strategy of the Group.

In the normal course of business, the Group uses the above-mentioned financial instruments to limit its exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions, and all contracts are denominated in currencies of major industrial countries.

#### i. Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises when the Group's recognized assets and liabilities are denominated in a currency that is not the entity's functional currency.

All the Group's borrowings are mainly denominated in either Hong Kong dollars or United States dollars. As at December 31, 2007 and 2006, all of the Group's long-term borrowings and convertible bonds denominated in United States dollars were swapped into Hong Kong dollar by cross currency swap contracts. Given this, management does not expect that there will be any significant currency risk associated with the Group's borrowings. All cross currency swap contracts outstanding as at December 31, 2007 with an aggregate notional contract amounts of US\$2,000 million (approximately HK\$15,517 million) were designated as cash flow hedges against foreign exchange rate risk, while certain cross currency swap contracts with notional contract amounts of US\$2,000 million (approximately HK\$15,562 million) were designated as cash flow hedges during 2006.

In respect of accounts receivable and payable held in currencies other than the functional currency of the operations to which they relate, the Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

### 39 FINANCIAL INSTRUMENTS (CONTINUED)

#### c. Market risk (continued)

##### i. Foreign currency risk (continued)

The following table details the Group's exposure at the balance sheet date to currency risk arising from significant recognized assets or liabilities denominated in foreign currencies.

| In HK\$ million                                                                  | The Group             |                  |                       |                  |
|----------------------------------------------------------------------------------|-----------------------|------------------|-----------------------|------------------|
|                                                                                  | 2007                  |                  | 2006                  |                  |
|                                                                                  | United States Dollars | Chinese Renminbi | United States Dollars | Chinese Renminbi |
| Accounts receivable                                                              | 546                   | 198              | 462                   | 270              |
| Amounts due from related companies                                               | 35                    | –                | 57                    | –                |
| Cash and cash equivalents                                                        | 933                   | 359              | 1,156                 | 134              |
| Accounts payable                                                                 | (528)                 | (234)            | (202)                 | (274)            |
| Amounts due to related companies                                                 | –                     | –                | (311)                 | –                |
| Bank loans                                                                       | –                     | (24)             | –                     | (11)             |
| Convertible bonds                                                                | –                     | –                | (4,163)               | –                |
| Long-term borrowings                                                             | (15,505)              | –                | (18,959)              | –                |
| Gross exposure arising from recognized assets and liabilities                    | (14,519)              | 299              | (21,960)              | 119              |
| Notional amounts of cross currency swap contracts designated as cash flow hedges | 15,517                | –                | 15,562                | –                |
| Overall net exposure                                                             | 998                   | 299              | (6,398)               | 119              |

As at December 31, 2007, if Hong Kong dollar had weakened/strengthened by 1% against the United States dollar, with all other variables held constant, the Group's profit after tax for the year would have been increased/decreased by approximately HK\$8 million (2006: HK\$53 million), mainly as a result of foreign exchange gains/losses on translation of United States dollar denominated recognized assets and liabilities which are not hedged by a hedging instruments. Meanwhile, the hedging reserve as at December 31, 2007 would have been increased/decreased by approximately HK\$155 million (2006: HK\$156 million), mainly as a result of foreign exchange gains/losses on the long-term borrowings being hedged by cross currency swap contracts.

As at December 31, 2007, if Hong Kong dollar had weakened/strengthened by 5% against the Chinese renminbi, with all other variables held constant, the Group's profit after tax for the year would have been increased/decreased by approximately HK\$12 million (2006: HK\$5 million), mainly as a result of foreign exchange gains/losses on translation of Chinese renminbi denominated recognized assets and liabilities which are not hedged by hedging instruments.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the Group's exposure to currency risk for recognized assets and liabilities in existence at the date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any change in the movement in value of the United States dollar against other currencies. The analysis is performed on the same basis for 2006.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2007

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 39 FINANCIAL INSTRUMENTS (CONTINUED)

#### c. Market risk (continued)

##### ii. Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises primarily from long-term borrowings. Borrowings at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. Most of the Group's long-term borrowings are on fixed rate basis in order to keep funding cost at a steady level. In addition, from time to time, the Group drew under long-term revolving loan facilities which are denominated in Hong Kong dollars and pay interest at floating rate.

The following table details the interest rate profile of the Group's and the Company's borrowings at the balance sheet date, after taking into account the effect of cross currency swap contracts designated as cash flow hedging instruments.

| In HK\$ million, except for %                           | The Group                 |        |                           |        | The Company               |   |                           |       |
|---------------------------------------------------------|---------------------------|--------|---------------------------|--------|---------------------------|---|---------------------------|-------|
|                                                         | 2007                      |        | 2006                      |        | 2007                      |   | 2006                      |       |
|                                                         | Effective interest rate % |        | Effective interest rate % |        | Effective interest rate % |   | Effective interest rate % |       |
| Net fixed rate borrowings:                              |                           |        |                           |        |                           |   |                           |       |
| Bank loans                                              | 5.43                      | 24     | 5.58                      | 11     | –                         | – | –                         | –     |
| Convertible bonds                                       | –                         | –      | 5.30                      | 4,163  | –                         | – | –                         | –     |
| Current portion of long term borrowings                 | –                         | –      | 8.03                      | 3,521  | –                         | – | –                         | –     |
| Long term borrowings with cash flow hedging instruments | 6.84                      | 15,505 | 6.84                      | 15,438 | –                         | – | –                         | –     |
|                                                         |                           | 15,529 |                           | 23,133 |                           | – |                           | –     |
| Variable rate borrowings:                               |                           |        |                           |        |                           |   |                           |       |
| Bank loans                                              | 4.03                      | 10,150 | 4.36                      | 6,300  | –                         | – | 4.36                      | 6,300 |
| Total borrowings                                        |                           | 25,679 |                           | 29,433 |                           | – |                           | 6,300 |

At December 31, 2007, if interest rates on Hong Kong dollar denominated borrowings had been increased/decreased by 14 basis points, with all other variables held constant, the Group's profit after tax for the year would have been decreased/increased by approximately HK\$11 million (2006: HK\$7 million), mainly as a result of higher/lower interest expense on floating rate borrowings.

The sensitivity analysis above has been determined assuming that the change in interest rates 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 14 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

### 39 FINANCIAL INSTRUMENTS (CONTINUED)

#### c. Market risk (continued)

##### iii. Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as held for trading securities (see note 25(b)) and available-for-sale equity securities (see note 25(a)). Other than unquoted equity securities held for strategic purposes, all of these investments are listed on a recognized stock exchange.

To manage its equity price risk, the portfolio is diversified in accordance with the limits set by the Group. Given the insignificant portfolio of listed equity securities held by the Group, management believes that the Group's equity price risk is minimal.

Performance of the Group's unquoted investments held for long term strategic purposes is assessed at least bi-annually against performance of their business as well as similar listed entities, based on the limited information available to the Group, together with an assessment of their relevance to the Group's long term strategic plans.

#### d. Fair values

All financial instruments are carried at amounts not materially different from their fair values as at December 31, 2007 and 2006 except as follows:

| In HK\$ million       | 2007            |            | 2006            |            |
|-----------------------|-----------------|------------|-----------------|------------|
|                       | Carrying amount | Fair value | Carrying amount | Fair value |
| <b>THE GROUP</b>      |                 |            |                 |            |
| Short-term borrowings | (10,174)        | (10,174)   | (13,995)        | (14,057)   |
| Long-term borrowings  | (15,505)        | (16,287)   | (15,438)        | (16,194)   |

#### e. Estimation of fair values

Fair value of financial instruments is estimated as follows:

- The fair value of financial instruments traded in active markets (such as trading and available-for-sale financial assets, and listed long-term borrowings and convertible note and bonds) is based on quoted market prices at the balance sheet date.
- The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine the fair value for the remaining financial instruments. The fair value of cross currency swap contracts is calculated as the present value of the estimated future cash flows.
- The nominal value less impairment provision of trade and other receivables and amounts due from related companies that are classified as current assets are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2007

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 40 COMMITMENTS

#### a. Capital

| In HK\$ million                   | The Group<br>2007 | 2006  |
|-----------------------------------|-------------------|-------|
| Authorized and contracted for     | 1,820             | 2,931 |
| Authorized but not contracted for | 2,002             | 1,968 |
|                                   | 3,822             | 4,899 |

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

| In HK\$ million                                              | The Group<br>2007 | 2006  |
|--------------------------------------------------------------|-------------------|-------|
| Investments                                                  | 361               | 861   |
| Investment properties                                        | 8                 | 37    |
| Property development for Cyberport project ( <i>note i</i> ) | 1,573             | 2,148 |
| Property development for other projects                      | 190               | 171   |
| Acquisition of property, plant and equipment                 | 1,688             | 1,675 |
| Others                                                       | 2                 | 7     |
|                                                              | 3,822             | 4,899 |

- i. The capital commitment as disclosed above represented management's best estimate of total construction costs of the Cyberport project, which has been revised from the total construction costs since the Cyberport Project Agreement was entered into on May 17, 2000.

#### b. Operating leases

As at December 31, 2007, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

##### Land and buildings

| In HK\$ million                 | The Group<br>2007 | 2006 |
|---------------------------------|-------------------|------|
| Within 1 year                   | 528               | 427  |
| After 1 year but within 5 years | 611               | 477  |
| After 5 years                   | 299               | 56   |
|                                 | 1,438             | 960  |

##### Network capacity and equipment

| In HK\$ million                 | The Group<br>2007 | 2006 |
|---------------------------------|-------------------|------|
| Within 1 year                   | 108               | 59   |
| After 1 year but within 5 years | 84                | 19   |
| After 5 years                   | –                 | 1    |
|                                 | 192               | 79   |

The leases typically run for an initial period of 1 to 13 years. None of the leases include contingent rentals.

## 40 COMMITMENTS (CONTINUED)

### c. Others

As set out in note 4(c), on June 17, 2004, the Company agreed to provide Reach Ltd. (“REACH”) with a revolving working capital loan facility up to US\$25 million (approximately HK\$195 million). The facility was secured and expired on December 31, 2007. The interest receivable under this facility was at LIBOR plus 250 basis points. During the years ended December 31, 2007 and 2006, none of this working capital loan facility was drawn down by REACH.

As at December 31, 2007, the Group has other outstanding commitments as follows:

| In HK\$ million                                    | The Group<br>2007 | 2006  |
|----------------------------------------------------|-------------------|-------|
| Purchase of rights to broadcast certain TV content | 2,559             | 1,032 |
| Purchase commitment on telecommunications services | 110               | 205   |
| Operating expenditure commitment                   | 315               | 335   |
|                                                    | <b>2,984</b>      | 1,572 |

## 41 CONTINGENT LIABILITIES

| In HK\$ million                                         | The Group<br>2007 | 2006 | The Company<br>2007 | 2006  |
|---------------------------------------------------------|-------------------|------|---------------------|-------|
| Performance guarantee                                   | 841               | 611  | 543                 | 417   |
| Tender guarantee                                        | 2                 | –    | 2                   | –     |
| Advance payment guarantee                               | 1                 | 9    | 1                   | –     |
| Payment guarantee                                       | 59                | –    | 47                  | –     |
| Guarantees given for bonds/notes issued by subsidiaries | –                 | –    | –                   | 4,182 |
| Guarantee in lieu of cash deposit                       | 1                 | 3    | 1                   | 2     |
| Employee compensation                                   | 6                 | 6    | 6                   | 6     |
| Guarantee indemnity                                     | 11                | 11   | –                   | –     |
|                                                         | <b>921</b>        | 640  | <b>600</b>          | 4,607 |

a. HKTC was in dispute with Hong Kong’s Inland Revenue Department (the “IRD”) regarding the deductibility of certain finance expenses. The IRD had raised assessments for part of the disputed finance expenses for the years of assessment 2000/01 to 2005/06 on April 21, 2005, February 3, 2006 and February 5, 2007. HKTC had lodged objections to the assessments. The dispute was fully settled in December 2007.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2007

(Amount expressed in Hong Kong dollars unless otherwise stated)

### 42 BANKING FACILITIES

Aggregate banking facilities as at December 31, 2007 were HK\$16,972 million (2006: HK\$16,698 million) of which the unused facilities amounted to HK\$6,798 million (2006: HK\$10,387 million).

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

Security pledged for certain banking facilities includes:

| In HK\$ million                     | The Group<br>2007 | 2006 |
|-------------------------------------|-------------------|------|
| Land and buildings                  | –                 | 31   |
| Bank deposit                        | 25                | 67   |
| Available-for-sale financial assets | –                 | 21   |
|                                     | 25                | 119  |

As at December 31, 2007, an indirect subsidiary of the Company had been granted a banking facility amounting to approximately HK\$20 million (2006: HK\$20 million) from a bank for the purpose of providing guarantee to the Government. Such facility was secured by a bank deposit placed by that indirect subsidiary of the Company from time to time to secure the amount of guarantee issued by the bank. No guarantee was issued by the bank under this banking facility as at December 31, 2007 (2006: Nil).

### 43 BUSINESS COMBINATIONS

On August 23, 2007, PCPD acquired 100% of the share capital of Nihon Harmony Resorts K.K., a company incorporated in Japan. The acquired business contributed revenue of HK\$8 million and net loss of HK\$7 million to PCPD for the period from August 23, 2007 to December 31, 2007.

Details of net assets acquired and goodwill are as follows:

|                                                                          | HK\$ million |
|--------------------------------------------------------------------------|--------------|
| Purchase consideration in cash                                           | 179          |
| Direct costs in relation to acquisition                                  | 3            |
| Less: Purchase consideration in cash for properties held for development | (159)        |
| Purchase consideration in cash for the business of a subsidiary          | 23           |
| Less: Fair value of net assets acquired                                  | (13)         |
| Goodwill on acquisition ( <i>note 20</i> )                               | 10           |

The goodwill is attributable to future profit generated from the ski operations.

The net assets of the business of a subsidiary at the acquisition date are as follows:

| In HK\$ million                                                     | Fair value | Carrying amount |
|---------------------------------------------------------------------|------------|-----------------|
| Property, plant and equipment                                       | 12         | 12              |
| Other non-current assets                                            | 2          | 2               |
| Accounts receivable, deposits, prepayments and other current assets | 2          | 2               |
| Trade payable, other payables and accrued charges                   | (3)        | (3)             |
| Net assets acquired                                                 | 13         | 13              |

### 43 BUSINESS COMBINATIONS (CONTINUED)

|                                                                          | HK\$ million |
|--------------------------------------------------------------------------|--------------|
| Purchase consideration for the business of a subsidiary settled in cash  | 23           |
| Cash and cash equivalents acquired                                       | –            |
| Cash outflow on acquisition of the business of a subsidiary (note 37(b)) | 23           |

### 44 POST BALANCE SHEET EVENT

The following event occurred subsequent to December 31, 2007 and up to the date of approval of these financial statements by the Board:

On February 12, 2008, an indirect wholly-owned subsidiary of the Company requested the board of directors of PCPD to put forward a proposal to the shareholders other than Asian Motion Limited ("Asian Motion"), a wholly-owned subsidiary of the Company with approximately 61.53% interest in PCPD, regarding a proposed privatization of PCPD by way of a scheme of arrangement under section 99 of the Companies Act 1981 of Bermuda (as amended) (the "Proposal"). Under the Proposal, all the shares in PCPD held by its shareholders other than Asian Motion will be cancelled in exchange for the payment to each shareholders other than Asian Motion of an amount of HK\$2.85 in cash for each share. The amount of cash required in order to effect the Proposal is approximately HK\$2,642 million, which will be financed from available financial resources of the Group. Upon the scheme becoming effective, the listing of PCPD's shares on the Stock Exchange would be withdrawn and PCPD would become an indirect wholly-owned subsidiary of the Company.

### 45 COMPARATIVE FIGURES

Certain comparative figures have been adjusted or re-classified as a result of the reclassification of certain operations among business segments, details of which are set out in note 6. Certain comparative figures have also been reclassified to conform with the current year's presentation.

### 46 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2007

Up to the date of approval of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ended December 31, 2007 and which have not been adopted in these financial statements:

|                   |                                                                                                       | Effective for accounting periods<br>beginning on or after |
|-------------------|-------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|
| HK(IFRIC)-Int 11  | HKFRS 2 – Group and Treasury Share Transactions                                                       | March 1, 2007                                             |
| HK(IFRIC)-Int 12  | Service Concession Arrangements                                                                       | January 1, 2008                                           |
| HKFRS 8           | Operating Segments                                                                                    | January 1, 2009                                           |
| HK(IFRIC)-Int 13  | Customer Loyalty Programmes                                                                           | July 1, 2008                                              |
| HK(IFRIC)-Int 14  | HKAS 19 – The Limit on a Defined Benefit Asset,<br>Minimum Funding Requirements and their Interaction | January 1, 2008                                           |
| HKAS 23 (Revised) | Borrowing Costs                                                                                       | January 1, 2009                                           |
| HKAS 1 (Revised)  | Presentation of Financial Statements                                                                  | January 1, 2009                                           |

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations would be in the period of initial application, but not yet in a position to state whether these amendments, new standards and new interpretations would have a significant impact on the Group's results of operations and financial position.

# FIVE YEAR FINANCIAL SUMMARY

For the year ended December 31, 2007

## Results

| In HK\$ million                                                               | 2007            | 2006*      | 2005*      | 2004*      | 2003*      |
|-------------------------------------------------------------------------------|-----------------|------------|------------|------------|------------|
|                                                                               |                 | (Restated) | (Restated) | (Restated) | (Restated) |
| <b>TURNOVER BY PRINCIPAL ACTIVITY</b>                                         |                 |            |            |            |            |
| Telecommunications Services                                                   | <b>16,636</b>   | 15,374     | 15,048     | 15,323     | 16,770     |
| TV & Content*                                                                 | <b>1,703</b>    | 1,002      | 696        | 479        | 343        |
| Mobile                                                                        | <b>1,468</b>    | 1,236      | 598        | –          | –          |
| PCCW Solutions                                                                | <b>1,795</b>    | 1,652      | 1,579      | 1,866      | 1,525      |
| Pacific Century Premium Developments Limited                                  | <b>3,134</b>    | 7,263      | 5,127      | 5,831      | 4,555      |
| Other Businesses*                                                             | <b>249</b>      | 328        | 346        | 401        | 470        |
| Elimination of inter-segment sales                                            | <b>(1,270)</b>  | (1,218)    | (895)      | (898)      | (1,040)    |
|                                                                               | <b>23,715</b>   | 25,637     | 22,499     | 23,002     | 22,623     |
| Cost of sales                                                                 | <b>(10,538)</b> | (12,973)   | (10,752)   | (10,774)   | (8,981)    |
| General and administrative expenses                                           | <b>(9,144)</b>  | (8,904)    | (7,767)    | (8,141)    | (9,278)    |
| Other (losses)/gains, net                                                     | <b>(3)</b>      | 42         | 626        | 409        | 407        |
| Losses on property, plant and equipment                                       | <b>(7)</b>      | (11)       | (52)       | (40)       | (1,167)    |
| Provisions for impairment losses                                              | –               | –          | –          | –          | (1,285)    |
| Restructuring costs                                                           | –               | –          | –          | (51)       | (38)       |
| Interest income                                                               | <b>429</b>      | 732        | 533        | 57         | 132        |
| Finance costs                                                                 | <b>(1,658)</b>  | (2,008)    | (2,234)    | (2,018)    | (2,293)    |
| Share of results of equity accounted entities                                 | <b>13</b>       | 37         | 121        | 147        | (843)      |
| Impairment losses on interests in associates and jointly controlled companies | –               | –          | (4)        | (16)       | (4,464)    |
| Profit/(Loss) before taxation                                                 | <b>2,807</b>    | 2,552      | 2,970      | 2,575      | (5,187)    |
| Income tax                                                                    | <b>(970)</b>    | (920)      | (1,103)    | (999)      | (1,140)    |
| Profit/(Loss) for the year                                                    | <b>1,837</b>    | 1,632      | 1,867      | 1,576      | (6,327)    |
| Attributable to:                                                              |                 |            |            |            |            |
| Equity holders of the Company                                                 | <b>1,503</b>    | 1,252      | 1,595      | 1,556      | (6,111)    |
| Minority interests                                                            | <b>334</b>      | 380        | 272        | 20         | (216)      |

\* Certain comparative figures have been restated to conform with the business segment presentation in the current year since the Group's directories business, previously included in Other Businesses, has been reclassified to TV & Content. Certain comparative figures have also been reclassified to conform with the current year's presentation.

## Assets and Liabilities

| As at December 31, in HK\$ million    | 2007            | 2006     | 2005     | 2004     | 2003     |
|---------------------------------------|-----------------|----------|----------|----------|----------|
| Total non-current assets              | <b>29,797</b>   | 29,711   | 27,574   | 31,481   | 29,567   |
| Total current assets                  | <b>21,560</b>   | 19,715   | 25,709   | 13,524   | 15,122   |
| Total current liabilities             | <b>(26,145)</b> | (25,657) | (22,360) | (20,894) | (10,918) |
| Net current (liabilities)/assets      | <b>(4,585)</b>  | (5,942)  | 3,349    | (7,370)  | 4,204    |
| Total assets less current liabilities | <b>25,212</b>   | 23,769   | 30,923   | 24,111   | 33,771   |
| Total non-current liabilities         | <b>(20,861)</b> | (20,870) | (28,191) | (29,811) | (42,136) |
| Net assets/(liabilities)              | <b>4,351</b>    | 2,899    | 2,732    | (5,700)  | (8,365)  |

# SCHEDULE OF PRINCIPAL PROPERTIES

Year 2007

| Property                                                                                    | Classification           | Status   | Existing Use     | Gross Site Area (sq.m.) | Gross Floor Area (sq.m.) | Lease Term* | Group's Interest |
|---------------------------------------------------------------------------------------------|--------------------------|----------|------------------|-------------------------|--------------------------|-------------|------------------|
| <b>The PRC</b>                                                                              |                          |          |                  |                         |                          |             |                  |
| Pacific Century Place,<br>No.2A Gong Ti Bei Lu,<br>Chaoyang District,<br>Beijing, the PRC   |                          |          |                  | 29,351                  |                          |             |                  |
| Tower A (except part<br>of 6th, 8th, 10th<br>and 13th Floor for<br>own use)                 | Investment<br>properties | Existing | Office for lease |                         | 39,752                   | Medium      | 62%              |
| Tower B                                                                                     | Investment<br>properties | Existing | Office for lease |                         | 20,104                   | Medium      | 62%              |
| Tower C                                                                                     | Investment<br>properties | Existing | Residential      |                         | 21,718                   | Long        | 62%              |
| Tower D                                                                                     | Investment<br>properties | Existing | Residential      |                         | 10,946                   | Long        | 62%              |
| Podium                                                                                      | Investment<br>properties | Existing | For lease        |                         | 75,431                   | Medium      | 62%              |
| Car parking spaces                                                                          | Investment<br>properties | Existing | For lease        |                         | 807 spaces               | Medium      | 62%              |
| <b>Hong Kong</b>                                                                            |                          |          |                  |                         |                          |             |                  |
| Part of 18th Floor<br>of Paramount Building,<br>No.12 Ka Yip Street,<br>Chai Wan, Hong Kong | Investment<br>properties | Existing | For lease        | Not applicable          | 919                      | Medium      | 62%              |

\* Lease term:  
Long term: Lease not less than 50 years  
Medium term: Lease less than 50 years but not less than 10 years

# INVESTOR RELATIONS

## FINANCIAL CALENDAR

|                                      |                                           |
|--------------------------------------|-------------------------------------------|
| Announcement of 2007 Annual Results  | March 6, 2008                             |
| Closure of Register of Members       | May 26-29, 2008<br>(both dates inclusive) |
| 2008 Annual General Meeting ("AGM")  | May 29, 2008                              |
| Payment of 2007 final dividend       | June 2008                                 |
| Announcement of 2008 Interim Results | August 2008                               |

## LISTINGS

The Company's securities are listed on The Stock Exchange of Hong Kong Limited and traded in the form of American Depositary Receipts ("ADRs") on the Pink Sheets (over-the-counter ("OTC") market) in the United States. Each ADR represents 10 ordinary shares of the Company. Certain United States Dollar guaranteed notes issued by wholly-owned subsidiaries of the Company are listed on the Luxembourg Stock Exchange and the Singapore Exchange Securities Trading Limited.

ADR holders registered on the books of the ADR Depositary Bank in New York (including beneficial owners), as at close of business March 14, 2008, can vote by proxy at the AGM by completing a voting instruction card provided by the Depositary Bank. The Depositary will tabulate and transmit the votes to the Company before the AGM.

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

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

## ANNUAL REPORT 2007

This Annual Report 2007 in both English and Chinese is now available in printed form and on the Company's website at [www.pccw.com](http://www.pccw.com)

Shareholders who:

- A) received the Annual Report 2007 by electronic means may request a printed copy, or
- B) received the Annual Report 2007 in either English or Chinese may request a printed copy of the other language version

by writing to the Company's Share Registrars at:

## PCCW LIMITED

c/o Share Registrars

Computershare Hong Kong Investor Services Limited  
Investor Communications Centre

Rooms 1806-1807, 18th Floor, Hopewell Centre  
183 Queen's Road East  
Wan Chai, Hong Kong  
Fax: +852 2529 6087/+852 2865 0990  
Email: [hkinfo00008@computershare.com.hk](mailto:hkinfo00008@computershare.com.hk)

Shareholders who have chosen to receive the Annual Report 2007 by electronic means through the Company's website and who, for any reason, have difficulty in receiving or gaining access to the Annual Report 2007 will promptly, on written request to the Company's Share Registrars – Computershare Hong Kong Investor Services Limited, be sent the Annual Report 2007 in printed form, free of charge.

Shareholders may change their choice of language or means of receipt of the Company's corporate communications at any time, free of charge, by notice in writing to the Company's Share Registrars.

## STOCK CODES

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

## INDEX CONSTITUENT

Hang Seng Index  
MSCI Index Series  
FTSE4Good Global Index

## SHARE INFORMATION

|                                        |                      |
|----------------------------------------|----------------------|
| Board lot:                             | 1,000 shares         |
| Issued shares as at December 31, 2007: | 6,778,627,153 shares |

## DIVIDENDS

|                                                          |                                  |
|----------------------------------------------------------|----------------------------------|
| Dividends per share for the year ended December 31, 2007 |                                  |
| Interim                                                  | 6.5 HK cents per ordinary share  |
| Final                                                    | 13.5 HK cents per ordinary share |

## REGISTRARS

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](mailto:hkinfo@computershare.com.hk)

## ADR DEPOSITARY

Citibank, N.A.  
American Depositary Receipts  
388 Greenwich Street, New York, NY 10013, US  
Toll free number: +1 877 CITIADR (248 4237)  
Telephone: +1 781 575 4555  
Email: [citibank@shareholders-online.com](mailto:citibank@shareholders-online.com)

## COMPANY SECRETARY

Philana WY Poon

## REGISTERED OFFICE

39th Floor, PCCW Tower  
TaiKoo Place, 979 King's Road  
Quarry Bay, Hong Kong  
Telephone: +852 2888 2888  
Fax: +852 2877 2877

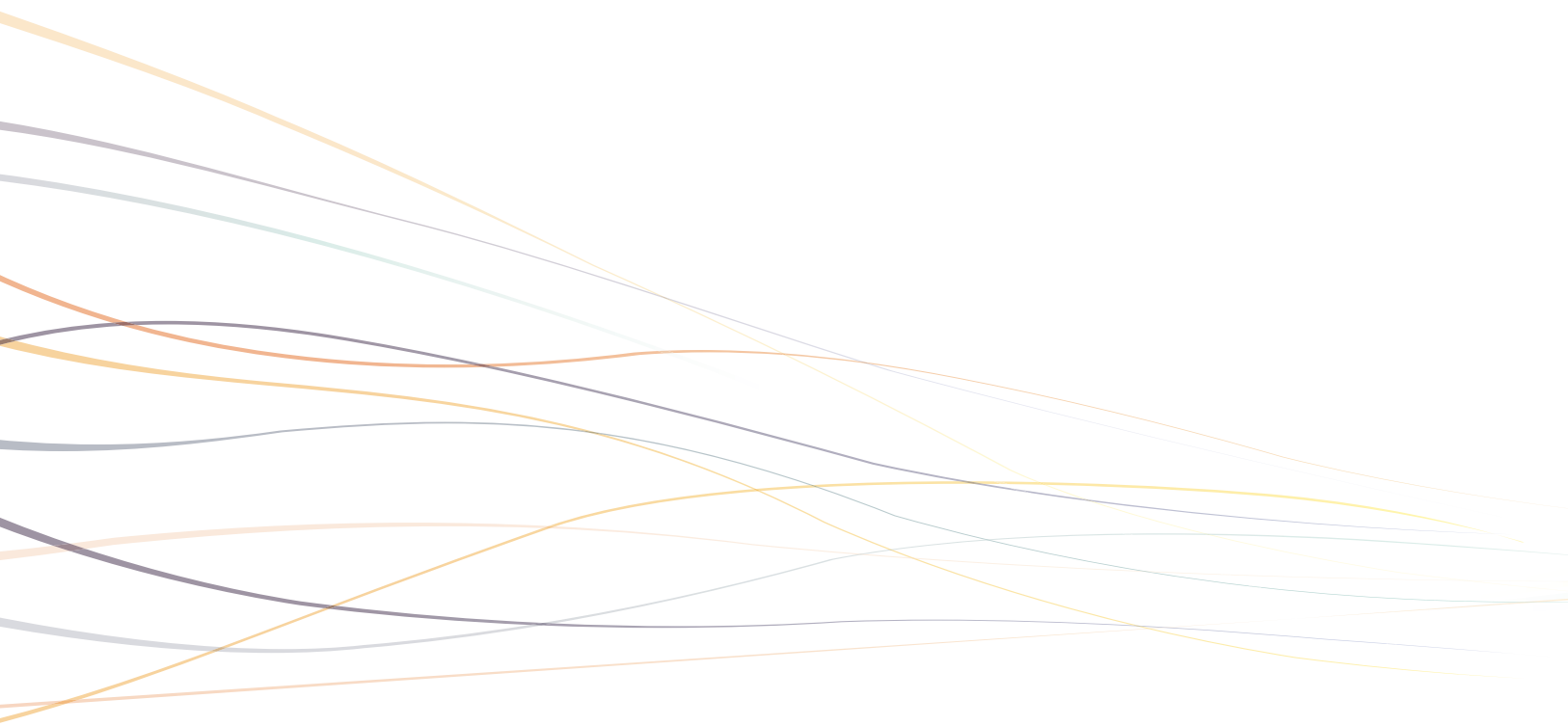
## INVESTOR RELATIONS

Cheung F. Tsang, Ph.D.  
PCCW Limited  
34th Floor, PCCW Tower  
TaiKoo Place, 979 King's Road  
Quarry Bay, Hong Kong  
Telephone: +852 2514 5084  
Email: [ir@pccw.com](mailto:ir@pccw.com)

## WEBSITE

[www.pccw.com](http://www.pccw.com)





## PCCW Limited

39/F, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong  
T: +852 2888 2888 F: +852 2877 8877 [www.pccw.com](http://www.pccw.com)

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

Copyright © PCCW Limited 2008. All Rights Reserved.