



Annual Report 2009 | Stock Code: 0008



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CORPORATE PROFILE

PCCW Limited (PCCW or the Company) is the holding company of HKT Group Holdings Limited (HKT), Hong Kong's premier telecommunications provider and a world-class player in Information and Communications Technologies. PCCW also holds a majority interest in Pacific Century Premium Developments Limited, and overseas investments including the wholly-owned UK Broadband Limited.

As the provider of Hong Kong's first quadruple-play experience, PCCW/HKT offers a range of innovative media content and services across four platforms – fixed-line, broadband Internet access, TV and mobile. In addition, the Group meets the sophisticated needs of the local and international business community, while supporting network operators with cutting-edge technical services and handling large-scale IT outsourcing projects for public and private sector organizations.

Employing approximately 18,200 staff, PCCW is headquartered in Hong Kong and maintains a presence in Europe, the Middle East, Africa, the Americas and mainland China, as well as 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 (ADRs) on the Pink OTC Markets in the U.S. (Ticker: PCCWY).

SIGNIFICANT EVENTS IN 2009

JANUARY

PCCW makes a successful bid for a 4G license in partnership with another operator.

MARCH

PCCW provides banks with a Secure Voice Recording Solution to meet a new regulatory requirement to record investment products sales process.

MAY

A special dividend of HK\$1.30 per share is paid, in lieu of a final dividend for 2008, following the lapse of a proposal by the two major shareholders to privatize the Company.

JUNE

PCCW eye2 is launched. Customers can make voice and video calls, watch TV, listen to music and access many other infotainment contents and interactive applications through a handsome portable device.

Additional radio spectrum in the 1800MHz band is won for strategic development of wireless services.

PCCW Solutions is commissioned to implement and enhance the integrated information system of the Companies Registry of the Hong Kong Government.

PCCW Global launches the strategically routed TGN-Intra Asia Cable System.

JULY

NOW TV enhances customers' viewing experience by bringing in the All Sports Network HD channel. It later offers exclusively in Hong Kong HBO in HD.

Integrated customer hotlines 1000 and 10088 are launched for general consumers and business customers respectively.

yp.com.hk, the previous Yellow Pages website, is relaunched as "your portal". Its comprehensive contents, in particular its unique movie sub-site, have significantly increased the website's attractiveness to Internet users and advertisers.

A mega data center is opened in Fanling as PCCW Solutions serves an expanding clientele of multinational corporations.

AUGUST

PCCW introduces NETVIGATOR Pocket Wi-Fi, a mobile broadband service that can give up to five Wi-Fi enabled appliances simultaneous high-speed Internet access.

PCCW Teleservices acquires a 70% interest in two companies operating contact centers in the Philippines, the U.S. and Panama.

SEPTEMBER

Mr. Edmund Tse joins the PCCW Board as an Independent Non-Executive Director.

OCTOBER

The sale of Pacific Century Premium Developments' project at the Chaoyang District in Beijing is completed.

NOVEMBER

La Liga, the top Spanish soccer league, debuts on NOW TV after PCCW has won the exclusive broadcast rights for Hong Kong for three seasons to 2011/12.

DECEMBER

PCCW is the sole communications infrastructure provider for the Hong Kong 2009 East Asian Games organizer.

PCCW receives awards for high service hours from the Social Welfare Department for its voluntary services.

KEY FIGURES

FINANCIAL HIGHLIGHTS

For the year ended December 31, 2009
In HK\$ million (except for per share data)

	2009	2008
Turnover		
Core revenue*	20,855	22,008
PCPD	4,222	9,943
	25,077	31,951
Cost of sales	(12,254)	(17,850)
General and administrative expenses	(9,029)	(10,005)
Other gains/(losses), net	168	(464)
Losses on property, plant and equipment	(61)	(103)
Interest income	18	197
Finance costs	(1,485)	(1,473)
Share of results of associates and jointly controlled companies	(55)	11
Impairment losses reversed/(recognized) on interests in an associate and a jointly controlled company	1	(31)
Profit before income tax	2,380	2,233
Income tax	(585)	(711)
Profit for the year	1,795	1,522
Attributable to:		
Equity holders of the Company	1,506	1,272
Minority interests	289	250
Earnings per share (in HK cents)		
Basic	22.24	18.78
Diluted	22.23	18.77
Dividends per share (in HK cents)		
Interim dividend	-	7.00
Final dividend proposed after the balance sheet date	13.30	-
Special dividend declared after the balance sheet date	-	130.00
EBITDA ¹		
Core EBITDA*	6,718	6,714
PCPD	781	1,268
	7,499	7,982

OPERATION HIGHLIGHTS

	As at December 31, 2009	As at December 31, 2008
Exchange lines in service ('000)	2,588	2,603
Business lines ('000)	1,182	1,195
Residential lines ('000)	1,406	1,408
Traditional data (Exit Gbps)	837	927
International Private Leased Circuit bandwidth (Exit Mbps)	82,913	78,202
Total broadband access lines ('000)	1,297	1,302
nOW TV installed base ('000)	1,001	953
Mobile subscribers ('000)	1,422	1,313
3G post-paid ('000)	529	414
2G post-paid ('000)	376	440
2G prepaid ('000)	517	459

*Note: Please refer to page 22. Note 1: Please refer to page 24.

STATEMENT FROM THE CHAIRMAN

PCCW continued to operate soundly in 2009, although the macro economic situation and the local market environment had impacted on the Group's business.

The profound effects of the financial meltdown in 2008 lingered on in most parts of the world last year. Business activities in Hong Kong were adversely affected by the recession in varying degrees and the impact had also quickly cascaded to the consumer level.

It is noticeable that an upswing in equity and property prices which began around the middle of last year has fuelled expectations of a speedier recovery. We are pleased with these signs and the optimism in some sectors. However, more efforts on an international level will be required for a sustainable global recovery benefiting Hong Kong. Many companies and consumers have remained cautious about the economic outlook.

Under the circumstances, the Group's results for 2009 were satisfactory. Total revenues for the year ended December 31, 2009 amounted to HK\$25,077 million and profit attributable to equity holders of the Company was HK\$1,506 million.

Overall, the Group's various businesses recorded creditable performances given the prevailing poor economic conditions. We continued to introduce innovative products and quality services to help business customers improve their efficiency and to serve the communication and infotainment needs of general consumers.

Now TV has both developed and acquired more exciting content including the top Spanish soccer league. Other units also reported notable wins and achievements in Hong Kong, mainland China, and overseas.

I am grateful to the staff for their hard work. I thank my fellow Directors, including Mr. Edmund Tse who joined us last September as an Independent Non-Executive Director, for their counsel and long-standing support.

I am confident that PCCW, as Hong Kong's premier telecom operator and a formidable player, will prevail in the face of economic adversity, market competition, and changing regulatory environment. The Board looks forward to a better return to shareholders as market conditions improve our business prospects.



Richard Li
Chairman
March 9, 2010

STATEMENT FROM THE GROUP MANAGING DIRECTOR

2009 will be remembered as one of the most challenging years for the Group's operations. The financial crisis in 2008 caused a sharp reduction in business activities and some closures, while high unemployment impacted affordability in the community. As a result, businesses and consumers exercised extreme caution about costs and expenses.

Although anxiety about a long period of recession was eased by the welcome signs of a rebound of the economy in the second half of last year, the operating environment for the telecommunications sector remained difficult.

To the Company, the situation was compounded by the unfavorable regulatory environment, in particular the change of the regime on fixed-mobile interconnection charges in April 2009. Interconnection revenues used to represent a significant amount in the bottom line, but the Company took the prudent step of not including such revenues in the results for the period after April 2009 as negotiations with the other operators on the new arrangements were still ongoing.

Mindful of the uncertainty surrounding the economic recovery and the adverse regulatory decisions, management's near-term objectives in this trying period have been to maintain the financial strength and competitiveness of the Group by tight cost controls and to retain our customers and keep our market share. We achieved satisfactory results in these respects last year.

We introduced cost cutting initiatives on both recurrent spending and capital expenditures, while making sure that sufficient funds would be available where needed to fulfill the long-term and short-term needs of our business. Savings were made in more flexible staffing arrangements, as well as in items across the board, such as marketing promotion, business traveling, consultancy, etc.

Our customer numbers had been largely stable across different businesses, although intense competition resulted in some inevitable price pressure. However, with our unique quadruple-play capability delivering attractive contents and services, PCCW continued to be

well positioned to serve our broad range of customers with a premium proposition.

Instead of continuing to lower prices to commercially nonviable levels, PCCW competes on the basis of its unrivalled range of services, innovation, excellent customer service and leadership in overall service quality. While we have the low cost base to be price competitive across our lines of business, our strategy is to give customers the best quality services at a value-for-money price.

The 2009 results are demonstrative of our success to weather the financial crisis steadily and to adjust our cost base purposefully in order to counter the impact of past or possibly future adverse regulatory developments.

I am pleased to report that PCCW's market position has consolidated and is secure. As you will find out in the following sections, we have competed effectively in all our lines of business.

INNOVATION WINS GOOD RECEPTION

Last year, we reached an important milestone in our long-term plan to revolutionize the fixed-line business with the launch of our self-developed PCCW eye2, a portable Wi-Fi media center which enables users to make voice and video calls, use as a photo album, watch TV, listen to music, and access various other infotainment contents and interactive applications.

Continuing the success of PCCW eye Multimedia Service, PCCW eye2 represents another breakthrough in technology integration and application, and ranks as one of the most advanced home multimedia products. NOW TV customers may port their subscribed channels and enjoy our acclaimed programming on PCCW eye2's 8-inch, crystal-clear LED screen with stereo speakers. This has proven to be a very attractive feature. Learning and language programs for children have also drawn positive feedback from customers.

In January 2010, PCCW eye2 was granted the Gold Award – Best Lifestyle (Creative and Free Living) Award in the Hong Kong ICT Awards 2009.

MOOV, Hong Kong's first and only home-grown digital music and music video streaming service, is also highly appreciated by PCCW eye Multimedia Service and PCCW eye2 customers. Available also to Internet and mobile users, MOOV expanded its library during the year to 200,000 local, Asian and Western titles. Since last October, music lovers have had the option to legitimately download some 10,000 songs from local labels in MP3 format, including songs that are not released in albums.

The economic conditions did not dampen the desire of broadband users to procure higher speed and greater mobility. With the active deployment of VDSL and our fiber capability, the Company offers a full range of broadband access speed up to 1,000 Mbps at affordable prices.

Our strength to meet customer demands has also been applied to the introduction of a new mobile Wi-Fi device for those on the move. NETVIGATOR Pocket Wi-Fi, launched last August, is a mobile broadband service that can give up to five Wi-Fi enabled appliances simultaneous high-speed Internet access.

It functions for netbooks, notebooks, portable media players, handheld game consoles, PDAs, mobile phones, cameras, etc. The maximum downlink speed of 7.2 Mbps and the maximum uplink speed of 5.76 Mbps are made possible by PCCW's HSPA mobile network, which in turn is backed by PCCW NextGen's super-fast optical fiber technology.

Late last year, we rolled out the HSPA+ 21 Mbps service, also supported by fiber backhaul, for users requiring mobile high-speed access.

PCCW mobile actively developed a suite of applications for smart phones to uplift customer experience and make us the preferred service provider. Our support for all types of smart phones and affordable tariff plans resulted in continued strong growth of our 3G customer base.

CAPTIVATING TV OFFERINGS

There were a number of "firsts" by NOW TV during 2009 in bringing customers exquisite programming. In July, the All Sports Network (ASN) high-definition (HD) channel made its debut on NOW TV, enabling sports fans to enjoy some of the most popular American sports in stunning 1080i video output, 16:9 screen and Dolby Digital 5.1 surround sound. On its heels was the exclusive launch of HBO in HD, the first movie channel to broadcast in this superb format in Hong Kong.

As of February 2010, NOW TV had eight HD channels, the most among all pay-TV and free TV service providers in Hong Kong. We plan to continue to offer customers more HD channels across sports, travel, documentary, lifestyle, entertainment and movies, as Hong Kong households have become more HD ready. Some HD channels are offered at no additional charge to existing channel subscribers thereby further increasing the value proposition to our customers.

Also for the first time, NOW TV has won the exclusive Hong Kong broadcast rights to the top Spanish soccer league, Liga de Fútbol Profesional or La Liga, for three seasons to 2011/12. Viewers are treated to live broadcast of matches between FC Barcelona, Real Madrid C.F., and the other top Spanish teams in both HD and standard definition. Matches are available as video on demand to suit the viewing preference of fans. In 2009/10, La Liga fields a host of celebrated footballers such as Cristiano Ronaldo, Kaka, and the 2009 World Player of the Year Lionel Messi, to name but a few.

Bidding for the Barclays Premier League broadcasting rights for the three seasons beginning 2010 concluded last November. The Company adopted an aggressive but disciplined bidding approach, and ultimately decided that it would not be in the interest of shareholders and customers to bid up the price to exorbitant levels.

To the tennis fans, NOW TV has also brought good news – the acquisition of the rights to the French Open means that NOW TV is the only TV operator in Hong Kong to offer all four Grand Slam tournaments exclusively.

As another integration aimed at enhancing users' convenience, we announced at the end of the year the cooperation with Sony Computer Entertainment to make NOW TV available to gamers through PlayStation®3 consoles, which is again the first of its kind in Hong Kong.

ADDRESSING BUSINESS TELECOM AND IT NEEDS

In the third quarter of 2009, there was a slowdown of the business market contraction that had begun a year earlier. With the economy still on the road to recovery, we worked hard to maintain our market shares in the key product lines and succeeded in doing so. In particular, the Company accelerated the enhancement of its network to cater to the high-speed broadband needs of the business sector, which resulted in continued growth in this segment.

PCCW was appointed by the 2009 East Asian Games (Hong Kong) Ltd as the sole fixed telecom provider during the prestigious regional sports event last December. We provided HD video linkage for live broadcasting of key events, first-in-Hong Kong HD video calling facilities, and an extensive and secure Metro IP network at various locations.

Our fixed-to-mobile integration technology was deployed more extensively to serve the communication needs in places where users have high mobility, such as medical staff in hospitals and hotel guests. Among the SMEs, our ONE communications package continued to gain further popularity.

A Secure Voice Recording Solution was introduced last year to assist banks to meet a new regulatory requirement to record investment products sales process. About 500 bank branches in Hong Kong have installed the solution, which offers the unique capability of recording and safekeeping even mobile communications.

Our information technology flagship, PCCW Solutions, had another steady year with wins in infrastructure outsourcing, application outsourcing and business process outsourcing projects. For instance, new mega data centers in Fo Tan and Fanling were opened during the year and a number of multinational corporations have signed up as customers. Its infrastructure outsourcing clientele also includes the Hong Kong Jockey Club and the Hong Kong Airport Authority. In addition to the private sector, government departments contracted PCCW Solutions for the provision of integrated systems for various applications.

In mainland China, PCCW Solutions was working on enterprise resource planning system upgrades and implementation for a number of major corporations, including some leading telecom operators.

PCCW Solutions owes its success to its reliable and quality service as well as its strong market position. In 2009, it was ranked by Gartner as one of the top service providers in Hong Kong in the definitive areas of system integration, information technology outsourcing, business process outsourcing, and consulting.

EXPANDING THE GLOBAL NETWORK

Last year, PCCW Teleservices acquired a 70% interest in each of two contact center services companies respectively in America and the Philippines. Already running one of the largest contact center operations in Asia, PCCW increased its agent positions by around 2,500 to over 5,500 following the transaction.

The two companies together operate a network of six English speaking call centers in Ohio and Nebraska in the U.S., one Spanish speaking center in Panama, and two centers in Manila providing services to U.S. companies. Both serve customers from the banking and finance, IT, consumer electronics and travel sectors.

The acquisition represents a major step in the Company's growth strategy for its contact center businesses. The additional English and Spanish speaking capabilities complement our core businesses in Hong Kong and mainland China. This transaction facilitates our access to the U.S., the largest contact center market in the world, and opens up opportunities for us to serve existing multinational clients for their worldwide customer care needs.

This expansion of the teleservices business coincided with the winning last November of a Gold Award of the Decade presented by the Hong Kong Call Center Association to recognize our outstanding achievements in the past 10 years.

In June 2009, PCCW Global announced the launch of the TGN-Intra Asia Cable System, the region's first direct, point-to-point and express optical fiber submarine cable interconnecting key points of presence in Hong Kong, Tokyo and Singapore with branch extensions to the Philippines and Vietnam. PCCW Global is a significant stakeholder of this private cable operated by Tata Communications.

The cable is designed and routed to avoid potential natural calamity areas in the Asia-Pacific Region. The value of this feature was immediately proven when Typhoon Morakot and earthquakes in the region last August caused other cable breaks. PCCW was able to quickly restore a large number of circuits and resume service to wholesale customers and service partners.

Along with some of the biggest international telecom names, PCCW Global was voted in the Top 10 Users' Choice of global telecom service providers by large enterprise telecom and communications managers at the World Communications Award 2009, and was a finalist in the category of Best Global Managed Service.

PROPERTY DEVELOPMENT

As noted in the Interim Report, Pacific Century Premium Developments (PCPD) entered into an agreement last August to sell its development project at the Chaoyang District in Beijing. The transaction was completed in October.

PCPD is releasing its remaining houses at Villa Bel-Air gradually over the next few years, while handover of sold units at ONE Pacific Heights in Hong Kong's west of Central district continues.

For overseas projects, master layout plans and marketing strategies are being drawn up for long-term projects to create world-class all-season resort development projects at Hokkaido in Japan, where the ski operation has already been established, and Phang-nga in southern Thailand.

PCPD will review its investment strategy on an ongoing basis so as to respond to ever-changing property dynamics, while pursuing a global search for opportunities showing significant growth potential.

GOING FORWARD

While 2009 was a transformational year for PCCW, the Company has entered 2010 on a leaner yet stronger basis.

Thanks to the hard work and sacrifice of our dedicated staff, the adjustment to the Company's cost base is largely complete. While we must continue to be cost-conscious, we will also continue to invest in new technology, networks and our services.

In this customer-centric business, relationship with customers is as important a challenge as the ability to harness technologies. In addition to network enhancement, last year we also strengthened our efforts in examining how to improve customer experience, so as to prepare our staff and systems to best meet the expectations of customers.

The 1000 Consumer Service Hotline and the 10088 Business Customer Hotline introduced earlier last year have significantly enhanced our customer service – the latter was given the Hong Kong Call Center Association’s Gold Award for outsourced inbound contact center of the year.

With its unparalleled technical expertise as well as a strengthened customer focus, PCCW will overcome the challenges due to changes in the economic and market landscape, competition, and regulatory environment. Management will work with all staff to make sure that the Company is positioned to benefit from opportunities that may arise.

In this rapidly developing data era, our powerful network, ubiquitous Wi-Fi hotspot presence, engineering ingenuity and strong contents have given us the edge to fulfill the increasing demand for both fixed and wireless broadband. Potential growth also emanates from our experience in TV operation – PCCW will shortly submit an application for a license for domestic free television program service in Hong Kong.

We believe that as the economic conditions improve, we are well poised for growth across the business as a whole.



Alex Arena
Group Managing Director
March 9, 2010

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

LI Tzar Kai, Richard

Chairman

Mr Li, aged 43, was appointed an Executive Director and Chairman of PCCW in August 1999. He is Chairman of PCCW's Executive Committee and a member of Nomination Committee of the Board. 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 also a representative of Hong Kong, China to the Asia Pacific Economic Co-operation (APEC) Business Advisory Council, a member of the Center for Strategic and International Studies' International Councillors' Group in Washington, D.C., and a member of the Global Information Infrastructure Commission.

Alexander Anthony ARENA

Group Managing Director

Mr Arena, aged 58, was appointed an Executive Director of PCCW in August 1999. He is Group Managing Director of PCCW, Deputy Chairman of PCCW's Executive Committee and a member of Regulatory Compliance Committee of the Board. He is also a Director of Pacific Century Regional Developments Limited, and the Deputy Chairman and 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

Mr Allen, aged 54, was appointed an Executive Director of PCCW in August 1999. He is 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 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 Boustead 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 the Institute of Chartered Accountants in England and Wales, a Fellow Member CPA Australia and a Fellow of the Institute of Certified Public Accountants of Singapore.

CHUNG Cho Yee, Mico

Executive Director

Mr Chung, aged 49, was appointed a Director of PCCW in November 1996 responsible for merger and acquisition activities. He is a member of PCCW's Executive Committee. He joined the Pacific Century Group in March 1999. 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 CSI Properties Limited (formerly known as Capital Strategic Investment Limited) and Independent Non-Executive Director of HKC (Holdings) Limited. He was an Independent Non-Executive Director of CIAM Group Limited between March 9, 2001 and May 31, 2008.

NON-EXECUTIVE DIRECTORS

LEE Chi Hong, Robert

Executive Director

Mr Lee, aged 58, was appointed an Executive Director of PCCW in September 2002. He is a member of PCCW's Executive Committee. He is also an Executive Director 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 (now Pritchard Englefield). He was enrolled as a solicitor in the United Kingdom in 1979 and admitted as a solicitor in Hong Kong in 1980. Mr Lee became a Notary Public in Hong Kong in 1991.

Mr Lee 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.

Sir David FORD, KBE, LVO

Non-Executive Director

Sir David, aged 75, was appointed a Non-Executive Director of PCCW in June 2002. He started his working life as an army officer in the Royal Artillery and served in five continents. During his last five years with the army, he served with the Commando Brigade and saw active service in Aden and Borneo.

Sir David left the army in 1972 and subsequently spent more than 20 years in Hong Kong, holding a number of appointments as a senior civil servant in the Hong Kong Government and one appointment in the Northern Ireland Office.

He attended the Royal College of Defence Studies in 1982. He was Chief Secretary and Deputy Governor of the Hong Kong Government from 1986 to 1993, before becoming the Hong Kong Commissioner in London until the change of sovereignty in Hong Kong in 1997.

LU Yimin

Non-Executive Director

Mr Lu, aged 46, became a Non-Executive Director of PCCW in May 2008. He is a member of the Nomination Committee and Regulatory Compliance Committee of the Board.

Mr Lu is an Executive Director and President of China Unicom (Hong Kong) Limited. He is Vice Chairman and President of China United Network Communications Group Company Limited. He is also a Director and President of China United Network Communications Limited and a Director and President of China United Network Communications Corporation Limited.

Mr Lu joined China Network Communications Group Corporation (CNC) in December 2007, serving as senior management. Prior to joining CNC, Mr Lu was a member of the Secretary Bureau of the General Office of the Chinese Communist Party Central Committee, serving as the Deputy Director and the Director of the Information Processing Office since 1992, Secretary at deputy director general level since 2001 and Secretary at director general level since 2005.

Mr Lu is a professor level senior engineer and has extensive experience in government administration and business management. He graduated from Shanghai Jiao Tong University in 1985 with a bachelor's degree in computer science and then was awarded a master's degree in public administration by the John F. Kennedy School of Government at Harvard University in the United States.

ZUO Xunsheng

Deputy Chairman and Non-Executive Director

Mr Zuo, aged 59, became a Deputy Chairman and Non-Executive Director of PCCW in July 2007. He is a member of the Remuneration Committee and Executive Committee of the Board.

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

Mr Zuo joined China Network Communications Group Corporation as Vice President in April 2002, and served as Senior Vice President of China Netcom Group Corporation (Hong Kong) Limited (CNC HK) since July 2004, Chief Operating Officer of CNC HK since December 2005, an Executive Director and Chief Executive Officer of CNC HK since May 2006 and Chairman of CNC HK since May 2008.

Mr Zuo graduated from Guanghua School of Management of Peking University with an EMBA degree in 2004. From July 1993 to October 1997, Mr Zuo served as Director of the former Bureau of Telecommunications of Jinan City, Shandong Province. From October 1997 to May 2000, he served as Director of the former Posts and Telecommunications Bureau of Shandong Province. He was President of the former Shandong Telecommunications Company from May 2000 to April 2002. Mr Zuo is well experienced in telecommunications operations and has rich management experience.

LI Fushen

Non-Executive Director

Mr Li, aged 47, became a Non-Executive Director of PCCW in July 2007.

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

He served as an Executive Director of China Netcom Group Corporation (Hong Kong) Limited (CNC HK) since January 2007 and as Chief Financial Officer of CNC HK since September 2005. He served as Joint Company Secretary of CNC HK from December 2006 to March 2008. Since October 2005, he has served as Chief Accountant of China Network Communications Group Corporation (CNC). From October 2003 to August 2005, he served as General Manager of the Finance Department of CNC. From November 2001 to October 2003, he served as Deputy General Manager of 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 in 2004, and from the Jilin Engineering Institute with a degree in engineering management in 1988. Mr Li has worked in the telecommunications industry for a long period of time and has extensive management experience.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor CHANG Hsin-kang, FREng, GBS, JP

Independent Non-Executive Director

Professor Chang, aged 69, was appointed a Director of PCCW in October 2000. He is a member of the Audit Committee and the Regulatory Compliance Committee of the Board.

Professor Chang became a Tsinghua University (Honorary Professor and) Wei Lun Senior Visiting Scholar in September 2007, and (Honorary Professor and) Yeh-Lu Xun Chair Professor at Peking University in February 2008. 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 the 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 the University of Southern California in the United States from 1985 to 1990.

Professor Chang serves as a member of the National Committee of the Chinese People's Political Consultative Conference. He is a Foreign Member of the Royal Academy of Engineering of the United Kingdom, a Member of International Eurasian Academy of Sciences; and Chevalier dans l'Ordre National de la Légion d'Honneur as well as Commandeur dans l'Ordre des Palmes Académiques 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 the 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.

Professor Chang is an Independent Non-Executive Director of Hon Kwok Land Investment Company, Limited, Brightoil Petroleum (Holdings) Limited and Nanyang Commercial Bank, Ltd.

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

Independent Non-Executive Director

Sir David, aged 70, was appointed a Director of PCCW in October 2000. He was previously a Non-Executive Deputy Chairman of the former Hong Kong-listed Cable & Wireless HKT Limited and served as a Director from November 1987 to August 2000. He is a member of the Audit Committee, Remuneration Committee, Nomination Committee and Regulatory Compliance Committee of the Board.

Sir David is Chairman and Chief Executive of The Bank of East Asia, Limited. He is also a Director of China Overseas Land & Investment Limited, COSCO Pacific Limited, Criteria CaixaCorp, S.A., Guangdong Investment Limited, The Hong Kong and China Gas Company Limited, The Hongkong and Shanghai Hotels, Limited, Hong Kong Interbank Clearing Limited, The Hong Kong Mortgage Corporation Limited, San Miguel Brewery Hong Kong Limited, SCMP Group Limited, Vitasoy International Holdings Limited, AFFIN Holdings Berhad and IMG Worldwide Inc. He was a director of China Merchants China Direct Investments Limited and Dow Jones & Company, Inc.

Sir David is a member of the Legislative Council of Hong Kong. He is Chairman of The Chinese Banks' Association, Limited and The Hong Kong Management Association. Sir David is also a member of the Banking Advisory Committee, a member of the Council of the Treasury Markets Association and a member of the international advisory board of Crédit Agricole S.A..

Sir Roger LOBO, CBE, LLD, JP

Independent Non-Executive Director

Sir Roger, aged 86, was appointed a Director of PCCW in August 1999. He is Chairman of the Regulatory Compliance Committee and a member of the Audit Committee, Remuneration Committee and Nomination 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 Limited.

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, the Society of Rehabilitation and Crime Prevention, Hong Kong 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

Independent Non-Executive Director

Mr Mehta, aged 63, became an Independent Non-Executive Director of PCCW in February 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 Limited, Jet Airways (India) Ltd. and Wockhardt Limited in Mumbai, India; Max India Limited, Cairn India Limited and Emaar MGF Land Limited in New Delhi, India. He is also an Independent Director on the Supervisory Board of ING Group N.V., a Netherlands company.

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

The Hon Raymond George Hardenbergh SEITZ

Independent Non-Executive Director

Mr Seitz, aged 69, is an Independent Non-Executive Director of PCCW. He is Chairman of the Remuneration Committee and a member of the Nomination Committee of the Board. He was a Non-Executive Director of PCCW from October 2000 and was redesignated as an Independent Non-Executive Director in February 2005.

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, Mr Seitz 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. He was a Non-Executive Director of The Chubb Corporation from February 1996 to April 2007 and was Non-Executive Chairman and a member of the Special Committee of Sun-Times Media Group, Inc. from July 2003 to January 2009.

TSE Sze Wing, Edmund, GBS

Independent Non-Executive Director

Mr Tse, aged 72, was appointed an Independent Non-Executive Director of PCCW in September 2009.

Mr Tse is currently Honorary Chairman of American International Assurance Company, Limited (AIA). He is also Non-Executive Chairman of Nan Shan Life Insurance Company, Limited and The Philippine American Life and General Insurance Company. From 1996 until June 2009, Mr Tse was Director of American International Group, Inc. (AIG) and from 2001 until June 2009, he was Senior Vice Chairman of AIG. From 2000 until June 2009, he was also Chairman and Chief Executive Officer of AIA. Mr Tse has held various senior positions and directorships in other AIG companies. Mr Tse is currently a Non-Executive Director of PICC Property and Casualty Company Limited.

Mr Tse was awarded the Gold Bauhinia Star (GBS) by the Government of the Hong Kong Special Administrative Region (HKSAR) in 2001 in recognition of his outstanding efforts in respect of the development of Hong Kong's insurance industry. Mr Tse graduated with a Bachelor of Arts degree in Mathematics from

The University of Hong Kong (HKU) in 1960. HKU conferred an Honorary Fellowship and an Honorary Doctorate Degree in Social Sciences on Mr Tse in 1998 and 2002 respectively. He also obtained diplomas from the College of Insurance and the Graduate School of Business of Stanford University. He has extensive management experience in the insurance market, both in Asia and globally. In 2003, Mr Tse was elected to the Insurance Hall of Fame, and is so far the only Chinese to receive this most prestigious award in the global insurance industry. Mr Tse serves many community and professional organizations as well as educational institutions. He is also President of the AIA Foundation, which supports charitable causes in Hong Kong.

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”) throughout the year ended December 31, 2009, except that the Chairman of the board of directors (the “Board”) was unable to attend the Company’s annual general meeting which was held on June 26, 2009 (as required under Code provision E.1.2) as he had an overseas engagement that was important to the Company’s business.

MODEL CODE SET OUT IN APPENDIX 10 TO THE LISTING RULES

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

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

The directors’ and chief executive’s interests and short positions in shares, underlying shares and debentures of the Company and its associated corporation are disclosed in the Report of the Directors on pages 32 to 50 of this annual report.

BOARD OF DIRECTORS

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

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

The Chairman of PCCW is Li Tzar Kai, Richard and the Group Managing Director is 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, 2009, the directors have selected suitable accounting policies and applied them consistently; made judgements and estimates that are prudent and reasonable, stated the reasons for any significant departure from applicable accounting standards in Hong Kong and have prepared the financial statements on a going-concern basis. The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position, results of operations, cash flows and changes in equity of the Group. The statement of the external auditor of the Company relating to their reporting responsibilities on the financial statements of the Company is set out in the Independent Auditor's Report on page 51 of this annual report.

As at the date of this report, the Board is comprised of 15 directors including five executive directors, four non-executive directors and six independent non-executive directors. Biographies of all the directors are set out on pages 10 to 14 of this annual report. The relationships (including financial, business, family or other material or relevant relationships) among members of the Board are also disclosed in the sections headed “**Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporation**” and “**Directors' Interests in Competing Business**” in the Report of the Directors of this annual report.

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

The Board held seven meetings in 2009. The Chairman of the Audit Committee and the Nomination Committee, and a member of the Remuneration Committee attended the annual general meeting of the Company held on June 26, 2009.

The attendance of individual directors at the Board and Board committee meetings during 2009 is set out in the following table:

Directors	Meetings attended/eligible to attend ²			
	Board	Audit Committee	Nomination Committee	Remuneration Committee
Executive Directors				
Li Tzar Kai, Richard (<i>Chairman of the Board</i>)	7/7	–	1/1	–
Alexander Anthony Arena (<i>Group Managing Director</i>)	7/7	–	–	–
Peter Anthony Allen	7/7	–	–	–
Chung Cho Yee, Mico	7/7	–	–	–
Lee Chi Hong, Robert	7/7	–	–	–
Non-Executive Directors				
Sir David Ford	7/7	–	–	–
Lu Yimin	6/7	–	1/1	–
Zuo Xunsheng (<i>Deputy Chairman of the Board</i>)	6/7	–	–	2/2
Li Fushen	6/7	–	–	–
Independent Non-Executive Directors				
Professor Chang Hsin-kang	7/7	2/3	–	–
Dr The Hon Sir David Li Kwok Po	5/7	2/3	1/1	1/2
Sir Roger Lobo	7/7	3/3	1/1	2/2
Aman Mehta (<i>Chairman of the Audit Committee & the Nomination Committee</i>)	4/7	2/3	0/1	–
The Hon Raymond George Hardenbergh Seitz (<i>Chairman of the Remuneration Committee</i>)	6/7	–	1/1	2/2
Tse Sze Wing, Edmund ¹	1/1	–	–	–

Remarks:

1. Appointed as an independent non-executive director with effect from September 10, 2009.
2. Directors may attend meetings in person, by phone or through other means of video conference or by their alternate directors in accordance with the Company's Articles of Association.

BOARD OF DIRECTORS (CONTINUED)

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 an annual written confirmation from each independent non-executive director confirming 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

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, media and business solutions operations.

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

The *Social Responsibility Committee*, which reports to the Finance and Management Committee, was established in 2007. It comprises senior members of PCCW's Group Communications, Group Human Resources, Group Legal, Corporate Secretariat, 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 PCCW's 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 and senior management. 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 David Li Kwok Po
Sir Roger Lobo
Zuo Xunsheng

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

- business requirements;
- individual performance and contribution to results;
- company performance and profitability;
- 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 two times in 2009. The record of attendance of individual directors at the committee meetings is set out on page 16 of this annual report.

The following is a summary of work performed by the Remuneration Committee during 2009:

- (i) review and recommendation of the non-executive directors' fees for 2009 to the Board for approval;
- (ii) review and approval of the 2008 incentive bonus payments to executive directors and key management personnel;
- (iii) review of the 2009 incentive bonus scheme for executive directors and senior management;
- (iv) review of a private consultancy agreement arrangement of an executive director; and
- (v) 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 85 to 89 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 David Li Kwok Po
Li Tzar Kai, Richard
Sir Roger Lobo
Lu Yimin
The Hon Raymond George Hardenbergh Seitz

The Nomination Committee met once in 2009. The attendance of individual directors at committee meetings is set out on page 16 of this annual report.

Nomination Committee (CONTINUED)

The following is a summary of work performed by the Nomination Committee during 2009:

- (i) recommendation to the Board for approval the list of retiring directors for re-election at the annual general meeting on June 26, 2009;
- (ii) consideration and recommendation to the Board for approval the appointment of Tse Sze Wing, Edmund as an independent 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 2010 at the forthcoming annual general meeting.

Each member of the Audit Committee is an independent non-executive director. Members of the Audit Committee are:
Aman Mehta (*Chairman*)
Professor Chang Hsin-kang
Dr The Hon Sir David Li Kwok Po
Sir Roger Lobo

The Audit Committee is provided with sufficient resources to discharge its duties and meets regularly with management, the internal auditor and external auditors and reviews their reports. During 2009, the committee met three times. The attendance of individual directors at the committee meetings is set out on page 16 of this annual report.

The following is a summary of work performed by the Audit Committee during 2009:

- (i) review of the annual report and annual results announcement for the year ended December 31, 2008 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 2009 annual general meeting;
- (iii) review and approval of KPMG audit engagements in respect of certain PCCW subsidiaries for the 2009 annual audit;
- (iv) review of continuing connected transactions;
- (v) review of the Group Internal Audit reports;
- (vi) review of the interim report and the interim results announcement for the six months ended June 30, 2009 with a recommendation to the Board for approval;
- (vii) review and approval of the external auditor's report for the Audit Committee for the six months ended June 30, 2009, the management representation letter and the Audit Strategy Memorandum for the year ended December 31, 2009;
- (viii) review and approval of the revised terms of reference of the Audit Committee;
- (ix) consideration and approval of audit and non-audit services;
- (x) review of the corporate governance report for the year ended December 31, 2008 and the corporate governance disclosures for the six months ended June 30, 2009 with recommendations to the Board for approval; and
- (xi) review of the annual report on effectiveness of internal controls under the Code.

Subsequent to the year end, the Audit Committee reviewed the annual report and annual results announcement for the year ended December 31, 2009 with a recommendation to the Board for approval.

Audit Committee (CONTINUED)

For the year ended December 31, 2009, fees payable to the auditors of the Group amounted to approximately HK\$18 million for audit services (2008: HK\$20 million) and HK\$16 million for non-audit services (2008: HK\$33 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	11
	16

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 the Hutchison Whampoa Group, the Cheung Kong Group and the Hong Kong Economic Journal Company Limited. This is to ensure all dealings with these entities are conducted on an arm's-length basis.

Members of the Regulatory Compliance Committee are:

Sir Roger Lobo (*Chairman*)
 Alexander Anthony Arena
 Professor Chang Hsin-kang
 Dr The Hon Sir David Li Kwok Po
 Lu Yimin

INTERNAL CONTROLS

The directors are responsible for maintaining and reviewing the effectiveness of the Group's internal controls including material financial, operational and compliance controls, risk management functions and particularly the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programs and budget. Appropriate policies and control procedures have been designed and established to ensure that: assets are safeguarded against improper use or disposal, relevant rules and regulations are adhered to and complied with, reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements, and key risks that may 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, including amongst other things, the appropriate mitigation and/or transfer of identified risk.

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

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

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

INTERNAL CONTROLS (CONTINUED)

During 2009, Group Internal Audit conducted selective reviews of the effectiveness of the Group's system of internal controls over financial, operational, compliance controls and risk management functions. Additionally, major heads of business and corporate functions were required to undertake a control self-assessment of their key controls. These results were assessed by Group Internal Audit and reported to the Audit Committee, which then reviewed and reported the same to the Board.

After a review of the accounting period ended December 31, 2009, the Audit Committee and the Board did not become aware of any areas of concern that would have an adverse impact on the Company's financial position or results of operations and considered the internal control systems to be effective and adequate including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programs and budget.

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

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

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

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

Regular dialogue takes place with the investment community. Inquiries from individuals on matters relating to their shareholdings and the business of the Company are welcomed and dealt with in an informative and timely manner. The relevant contact information is provided on page 140 of this annual report.

Shareholders are encouraged to attend the forthcoming annual general meeting of the Company for which at least 20 clear business days' notice is given. At the meeting, directors are available to answer questions on the Group's business.

On behalf of the Board

Philana WY Poon

Group General Counsel and Company Secretary
Hong Kong, March 9, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

MANAGEMENT REVIEW

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

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

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

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

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

OUTLOOK

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

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

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

FINANCIAL REVIEW BY SEGMENTS

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Note 1 EBITDA represents earnings before interest income, finance costs, income tax, depreciation of property, plant and equipment, amortization of land lease premium and intangible assets, gain/loss on disposal of property, plant and equipment, investment properties and interests in leasehold land, net other gains/losses, losses on property, plant and equipment, restructuring costs, impairment losses on interests in associates and jointly controlled companies and the Group's share of results of associates and jointly controlled companies. While EBITDA is commonly used in the telecommunications industry worldwide as an indicator of operating performance, leverage and liquidity, it is not presented as a measure of operating performance in accordance with the Hong Kong Financial Reporting Standards and should not be considered as representing net cash flows from operating activities. The computation of the Group's EBITDA may not be comparable to similarly titled measures of other companies.

Note 2 Year-on-year percentage change was based on absolute percentage change.

Note 3 Figures are stated as at the period end, except for International Direct Dial ("IDD") minutes which is the total for the period.

Note 4 Gross debt refers to the principal amount of short-term borrowings and long-term borrowings. Net debt refers to the principal amount of short-term borrowings and long-term borrowings minus cash and cash equivalents and certain restricted cash.

Note 5 Group capital expenditure includes additions to property, plant and equipment, investment properties and interests in leasehold land.

OPERATING DRIVERS⁴

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

TELECOMMUNICATIONS SERVICES (“TSS”)

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

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

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

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

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

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

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

TV & Content

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

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

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

Mobile

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

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

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

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

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

PCCW Solutions

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

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

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

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

PCPD

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

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

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

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

Other Businesses

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

Eliminations

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

Costs

Cost of Sales

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

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

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

General and Administrative Expenses

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

EBITDA¹

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

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

Other Gains/(Losses), Net

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

Finance Costs and Interest Income

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

Income Tax

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

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

Minority Interests

Minority interests of HK\$289 million primarily represented the net profit attributable to the minority shareholders of PCPD.

Consolidated Profit Attributable to Equity Holders of the Company

Consolidated profit attributable to equity holders of the Company for the year ended December 31, 2009 increased by 18% to HK\$1,506 million (2008: HK\$1,272 million).

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

CREDIT RATINGS OF HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

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

CAPITAL EXPENDITURE⁵

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

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

HEDGING

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

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

CHARGE ON ASSETS

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

CONTINGENT LIABILITIES

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

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

HUMAN RESOURCES

As at December 31, 2009, the Group had approximately 18,200 employees (June 30, 2009: 16,300). About two-thirds of these employees work in Hong Kong and the others are based mainly in mainland China. The Company has established incentive bonus schemes designed to motivate and reward employees at all levels to achieve the Company's business performance targets. Payment of bonuses is generally based on achievement of EBITDA¹ and free cash flow targets for the Group as a whole and for each of the individual business units.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of 13.3 HK cents per share (2008: final dividend – nil and special dividend of HK\$1.30 per share) for the year ended December 31, 2009 subject to the approval of shareholders of the Company at the forthcoming annual general meeting. The Board did not declare an interim dividend for the six months ended June 30, 2009 (2008: 7 HK cents per share).

REPORT OF THE DIRECTORS

The board of directors (the “Board”) presents its annual report together with the audited consolidated financial statements of PCCW Limited (“PCCW” or the “Company”) and its subsidiaries (collectively the “Group”) for the year ended December 31, 2009.

PRINCIPAL ACTIVITIES

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

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, 2009 are set out in the accompanying consolidated financial statements on page 52.

The Board did not declare an interim dividend for the six months ended June 30, 2009 (2008: 7 HK cents per share).

The Board has recommended the payment of a final dividend of 13.3 HK cents per share (2008: final dividend – nil and special dividend of HK\$1.30 per share) for the year ended December 31, 2009 to those shareholders on the register of members of the Company on Wednesday, May 19, 2010 and payable on or around Thursday, May 27, 2010 subject to the approval of shareholders of the Company at the forthcoming annual general meeting. The Company’s register of members will be closed from Friday, May 14, 2010 to Wednesday, May 19, 2010 (both days inclusive), during which period no transfer of shares will be effected.

FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of the Group for the last five financial years is set out on page 138.

SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED COMPANIES

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

FIXED ASSETS

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

BORROWINGS

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

SHARE CAPITAL

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

RESERVES

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2009, 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*
Peter Anthony Allen
Chung Cho Yee, Mico
Lee Chi Hong, Robert

Non-Executive Directors

Sir David Ford, KBE, LVO
Lu Yimin
Zuo Xunsheng *Deputy Chairman*
Li Fushen

Independent Non-Executive Directors

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

(appointed on September 10, 2009)

In accordance with Article 92 of the Company's Articles of Association, Tse Sze Wing, Edmund shall retire from office at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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, 2009, 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 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/ Chief Executive	Personal interests	Number of ordinary shares			Number of underlying shares held under equity derivatives	Total	Approximate percentage of issued share capital
		Family interests	Corporate interests	Other interests			
Li Tzar Kai, Richard	–	–	271,666,824 (Note 1(a))	1,697,873,335 (Note 1(b))	–	1,969,540,159	29.08%
Alexander Anthony Arena (Note 3)	760,000	–	–	–	9,600,200 (Note 2)	10,360,200	0.15%
Peter Anthony Allen	253,200	–	–	–	2,357,200 (Note 4)	2,610,400	0.04%
Chung Cho Yee, Mico	1,176,260	18,455 (Note 5)	–	–	7,815,200 (Note 4)	9,009,915	0.13%
Lee Chi Hong, Robert	992,600 (Note 6(a))	511 (Note 6(b))	–	–	5,000,000 (Note 4)	5,993,111	0.09%
Sir David Ford	–	–	–	–	1,000,000 (Note 4)	1,000,000	0.01%
Professor Chang Hsin-kang	64,000	–	–	–	–	64,000	0.001%
Dr The Hon Sir David Li Kwok Po	1,000,000	–	–	–	–	1,000,000	0.01%
Tse Sze Wing, Edmund	–	140,000 (Note 7(a))	200,000 (Note 7(b))	–	–	340,000	0.005%

Notes:

1. (a) Of these shares, Pacific Century Diversified Limited, a wholly-owned subsidiary of Chiltonlink Limited, held 237,919,824 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;

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)

1. (b) (continued)
 - (ii) a deemed interest in 112,935,177 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 112,935,177 shares of the Company held by PCGH; and
 - (iii) a deemed interest in 1,548,211,301 shares of the Company held by Pacific Century Regional Developments Limited ("PCRD"), a company in which PCGH had, through certain wholly-owned subsidiaries being Anglang Investments Limited, Pacific Century Group (Cayman Islands) Limited, Pacific Century International Limited and Borsington Limited, an aggregate of 75.74% interest. Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Li Tzar Kai, Richard was also deemed to be interested in 0.91% of PCRD through Hopestar Holdings Limited, a company wholly-owned by Li Tzar Kai, Richard. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 1,548,211,301 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) 9,600,000 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. As disclosed previously in the 2009 Interim Report of the Company, a private company owned by Li Tzar Kai, Richard has provided a seven year interest-free loan in the amount of US\$10,000,000 to Alexander Anthony Arena at his request and for personal reasons. Alexander Anthony Arena has entered into a seven year consultancy agreement with another private company owned by Li Tzar Kai, Richard with an annual consultancy fee sufficient to repay the aforementioned loan over its seven year term. This private arrangement was reviewed by the Remuneration Committee prior to its finalization. The Committee noted that the consultancy services provided to the private company would be publicly disclosed, would not conflict with Alexander Anthony Arena's duties at PCCW and overall would be in the interests of PCCW.
4. These interests represented the interests in underlying shares in respect of share options granted by the Company to these directors as beneficial owners, the details of which are set out in the section headed "Share Option Schemes" of this report.
5. These shares were held by the spouse of Chung Cho Yee, Mico.
6. (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.
7. (a) These shares were held by the spouse of Tse Sze Wing, Edmund.
(b) These shares were held by Genpoint Investments Limited, which was 100% owned by Tse Sze Wing, Edmund.

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/ Chief Executive	Personal interests	Number of ordinary shares			Other interests	Number of underlying shares held under equity derivatives	Total	Approximate percentage of issued share capital
		Family interests	Corporate 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 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, 2009.

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. On February 8, 2009, all outstanding share options which were granted on February 8, 2005 under the 2004 Scheme had lapsed. There were no outstanding share options under the 2004 Scheme as at December 31, 2009. As at December 31, 2009, 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 82,837,597, which represented approximately 1.22% 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, 2009 are as follows:

A. 1994 Scheme

(1) Outstanding options at January 1, 2009 and at December 31, 2009

Name or category of participant	Date of grant (Notes 1 & 2)	Vesting period (Note 1)	Exercisable period (Note 1)	Exercise price HK\$	Number of options	
					Outstanding at 01.01.2009	Outstanding at 12.31.2009
Director/Chief Executive						
Alexander Anthony Arena	08.28.1999	08.17.2000 to 08.17.2004	08.17.2000 to 08.17.2009	11.7800	3,200,000	–
	08.26.2000	08.26.2001 to 08.26.2005	08.26.2001 to 08.26.2010	60.1200	1,600,000	1,600,000
	02.20.2001	08.26.2001 to 08.26.2005	08.26.2001 to 01.22.2011	16.8400	1,600,000	1,600,000
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	6,400,000	6,400,000
Peter Anthony Allen	08.28.1999	08.17.2000 to 08.17.2002	08.17.2000 to 08.17.2009	11.7800	272,000	–
	08.26.2000	08.26.2001 to 08.26.2005	08.26.2001 to 08.26.2010	60.1200	178,600	178,600
	02.20.2001	08.26.2001 to 08.26.2005	08.26.2001 to 01.22.2011	16.8400	178,600	178,600
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	2,000,000	2,000,000
Chung Cho Yee, Mico	08.28.1999	08.17.2000 to 08.17.2004	08.17.2001 to 08.17.2009	11.7800	3,575,200	–
	08.26.2000	08.26.2001 to 08.26.2005	08.26.2001 to 08.26.2010	60.1200	1,060,000	1,060,000
	02.20.2001	08.26.2001 to 08.26.2005	08.26.2001 to 01.22.2011	16.8400	1,060,000	1,060,000
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	5,695,200	5,695,200
Lee Chi Hong, Robert	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	5,000,000	5,000,000
Sir David Ford	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	1,000,000	1,000,000

SHARE OPTION SCHEMES (CONTINUED)

1. Share Option Schemes of the Company (continued)

A. 1994 Scheme (continued)

(1) Outstanding options at January 1, 2009 and at December 31, 2009 (continued)

Name or category of participant	Date of grant (Notes 1 & 2)	Vesting period (Note 1)	Exercisable period (Note 1)	Exercise price HK\$	Number of options	
					Outstanding at 01.01.2009	Outstanding at 12.31.2009
Employees						
In aggregate	08.17.1999 to 09.15.1999	(Note 3)	08.17.2000 to 08.17.2009	11.7800	5,345,593	–
	10.25.1999 to 11.23.1999	(Note 3)	10.25.2000 to 10.25.2009	22.7600	1,529,600	–
	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	823,000	823,000
	10.27.2000 to 11.25.2000	(Note 5)	(Note 5)	24.3600	8,159,626	7,554,026
	01.22.2001 to 02.20.2001	(Note 6)	(Note 6)	16.8400	5,293,839	5,017,159
	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	1,050,920	1,047,640
	07.16.2001 to 09.15.2001	07.16.2002 to 07.16.2004	07.16.2002 to 07.16.2011	9.1600	210,280	194,600
	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	6,120,000	5,860,000
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	30,360,672	29,501,672
	09.16.2003	09.16.2004 to 09.16.2006	09.16.2004 to 09.14.2013	4.9000	7,000	7,000
Others						
	08.17.1999 to 09.15.1999	(Note 3)	08.17.2000 to 08.17.2009	11.7800	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
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	1,000,000	1,000,000

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, 2009

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.

(3) Options cancelled or lapsed during the year ended December 31, 2009

Name or category of participant	Exercise price HK\$	Number of options cancelled	Number of options lapsed
Director/Chief Executive			
Alexander Anthony Arena	11.7800	–	3,200,000
Peter Anthony Allen	11.7800	–	272,000
Chung Cho Yee, Mico	11.7800	–	3,575,200
Employees			
In aggregate	11.7800	–	5,345,593
	22.7600	–	1,529,600
	24.3600	–	605,600
	16.8400	–	276,680
	10.3000	–	3,280
	9.1600	–	15,680
	6.1500	–	260,000
	4.3500	–	859,000
Others	11.7800	–	800,000

SHARE OPTION SCHEMES (CONTINUED)

1. Share Option Schemes of the Company (continued)

B. 2004 Scheme

(1) Outstanding options at January 1, 2009 and at December 31, 2009

Name or category of participant	Date of grant (Note 1)	Vesting period (Note 1)	Exercisable period (Note 1)	Exercise price HK\$	Number of options	
					Outstanding at 01.01.2009	Outstanding at 12.31.2009
Director/Chief Executive						
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	–
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	–
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	–
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	–
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	–
Employees						
In aggregate	02.08.2005	02.08.2006 to 02.08.2007	02.08.2006 to 02.07.2009	4.4750	27,391,500	–

(2) Options granted during the year ended December 31, 2009

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.

(3) Options exercised during the year ended December 31, 2009

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.

(4) Options cancelled or lapsed during the year ended December 31, 2009

Name or category of participant	Exercise price HK\$	Number of options cancelled	Number of options lapsed
Director/Chief Executive			
Alexander Anthony Arena	4.4750	–	3,000,000
Peter Anthony Allen	4.4750	–	2,000,000
Chung Cho Yee, Mico	4.4750	–	3,000,000
Lee Chi Hong, Robert	4.4750	–	1,000,000
Sir David Ford	4.4750	–	2,000,000
Employees			
In aggregate	4.4750	–	27,391,500

SHARE OPTION SCHEMES (CONTINUED)

2. Share Option Schemes of Subsidiary 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, 2009 are as follows:

2003 PCPD Scheme

(1) Outstanding options at January 1, 2009 and at December 31, 2009

Name or category of participant	Date of grant (Note 1)	Vesting period (Note 1)	Exercisable period (Note 1)	Exercise price HK\$	Number of options	
					Outstanding at 01.01.2009	Outstanding at 12.31.2009
Director/Chief Executive of the Company						
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

As at December 31, 2009, the total number of shares of PCPD that may be issued upon exercise of all share options granted and yet to be exercised under the 2003 PCPD Scheme was 5,000,000, which represented approximately 0.21% of the issued share capital of PCPD as at that date.

(2) Options granted during the year ended December 31, 2009

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.

(3) Options exercised during the year ended December 31, 2009

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

(4) Options cancelled or lapsed during the year ended December 31, 2009

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.

SHARE OPTION SCHEMES (CONTINUED)

Notes:

1. All dates are shown month/day/year.
2. 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.
3. 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.
4. 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.
5. 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.
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.

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, 2009, 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, 2009, 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 shares/underlying shares held	Approximate percentage of issued share capital
Interests			
PCRD		1,548,211,301	22.86%
PCGH	1	1,661,146,478	24.53%
Star Ocean Ultimate Limited	2	1,661,146,478	24.53%
The Ocean Trust	2	1,661,146,478	24.53%
The Starlite Trust	2	1,661,146,478	24.53%
OS Holdings Limited	2	1,661,146,478	24.53%
Ocean Star Management Limited	2	1,661,146,478	24.53%
The Ocean Unit Trust	2	1,661,146,478	24.53%
The Starlite Unit Trust	2	1,661,146,478	24.53%
China United Network Communications Group Company Limited ("Unicom")	3	1,343,571,766	19.84%

Notes:

- These interests represented (i) PCGH's beneficial interests in 112,935,177 shares; and (ii) PCGH's interests through its controlled corporations (being its wholly-owned subsidiaries, Borsington Limited, Pacific Century International Limited, Pacific Century Group (Cayman Islands) Limited and Anglang Investments Limited, which together controlled 75.74% of PCRD) in 1,548,211,301 shares held by PCRD.
- On April 18, 2004, Li Tzar Kai, Richard transferred the entire issued share capital of PCGH to Ocean Star Management Limited as trustee of The Ocean Unit Trust and The Starlite Unit Trust. The entire issued share capital of Ocean Star Management Limited was held by OS Holdings Limited. The Ocean Trust and The Starlite Trust held all units of The Ocean Unit Trust and The Starlite Unit Trust respectively. Star Ocean Ultimate Limited was the discretionary trustee of The Ocean Trust and The Starlite Trust.
- Unicom indirectly held these interests through its indirect wholly-owned subsidiary, China Netcom Corporation (BVI) Limited.

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

As at December 31, 2009, 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	Note	Number of shares/underlying shares held	Approximate percentage of issued share capital
Interests			
Ocean Star Investment Management Limited	Note	1,661,146,478	24.53%

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, 2009.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended December 31, 2009, the interests of the directors of the Company in competing business required to be disclosed pursuant to Rule 8.10 of the Listing Rules were as follows:

Name of Director	Name of company	Nature of business	Nature of interests
Li Tzar Kai, Richard	Cheung Kong and its subsidiaries (the "Cheung Kong Group")	Property development and investment, hotel and serviced suite operation, property and project management and investment in securities	Deemed interests in Cheung Kong (<i>Note 1</i>)
	HWL and its subsidiaries (the "Hutchison Group")	Ports and related services; property and hotels; retail; energy, infrastructure, investments and others; and telecommunications	Certain personal and deemed interests in HWL (<i>Note 2</i>)
Chung Cho Yee, Mico (<i>Note 3</i>)	CSI Properties Limited ("CSI", formerly known as Capital Strategic Investment Limited) and its subsidiaries	Property investment and securities investment	Non-Executive Chairman and beneficial owner of 35.19% of CSI
Lu Yimin	Unicom and its subsidiaries (<i>Note 4</i>)	Provision of wireless, fixed-line, broadband, data and related value-added services	Vice Chairman and President of Unicom
	China United Network Communications Limited ("Unicom A-Share") and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Director and President of Unicom A-Share
	China Unicom (Hong Kong) Limited ("Unicom HK") and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Executive Director and President of Unicom HK
Zuo Xunsheng	Unicom and its subsidiaries (<i>Note 4</i>)	Provision of wireless, fixed-line, broadband, data and related value-added services	Vice Chairman and Vice President of Unicom
	Unicom A-Share and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Director of Unicom A-Share
	Unicom HK and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Executive Director and Senior Vice President of Unicom HK
Li Fushen	Unicom and its subsidiaries (<i>Note 4</i>)	Provision of wireless, fixed-line, broadband, data and related value-added services	Vice President of Unicom
	Unicom HK and its subsidiaries	Provision of wireless, fixed-line, broadband, data and related value-added services	Senior Vice President of Unicom HK

DIRECTORS' INTERESTS IN COMPETING BUSINESS (CONTINUED)

In addition, Li Tzar Kai, Richard, Peter Anthony 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.

Further, Li Tzar Kai, Richard, Alexander Anthony Arena and Peter Anthony Allen are directors of PCRCD. PCRCD is an investment holding company of, among others, interests in the Company and property and infrastructure investment in the Asia Pacific region.

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

Li Tzar Kai, Richard has a controlling interest in some of the Private Companies. Further, he is or may be regarded as interested in PCRCD 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 PCRCD 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. Unicom (formerly known as China United Telecommunications Corporation) and China Network Communications Group Corporation ("CNC") agreed to undertake a merger ("Unicom-CNC Merger") which became effective in January 2009 after approval by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC. Unicom, through merger by absorption of CNC, is the successor entity to the Unicom-CNC Merger. As a result of the Unicom-CNC Merger, Unicom has assumed all the rights and obligations of CNC and all the assets, liabilities and business of CNC have vested in Unicom.

CHARITABLE DONATIONS

During the year, the Group made charitable donations of approximately HK\$6 million (2008: HK\$0.114 million).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

CONTINUING CONNECTED TRANSACTIONS

During the year ended December 31, 2009, the Group has entered into certain transactions which constituted continuing connected transactions (as defined in the Listing Rules) and details of these transactions are set out as follows in accordance with the Listing Rules:

1. China 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 has, from time to time, entered into transactions with the CTC Group (the “CTC Transactions”) relating to the acquisition and provision of certain information technology services and products. It is considered that the entering into of the CTC Transactions with the CTC Group is consistent with the commercial objectives of the Group and falls within the core business of the Group. These transactions constituted continuing connected transactions of the Company under the Listing Rules.

As referred to in the Company’s announcement dated April 23, 2008, the Company revised the previously announced 2009 annual caps and set the 2010 annual caps for each of the following categories of transactions for the year ending December 31, 2010 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 in accordance with the terms set out therein and determined by arm’s length negotiations between the relevant parties with reference to (i) the estimated costs of the provision of the relevant services to and/or from the 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.

CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

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

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. Access Capital Limited, an independent financial adviser, which was appointed by the Company in accordance with the Listing Rules to advise on the duration of the provision of the IRU Contracts, was of the view that it was (i) essential to safeguard the interests of the Company and its shareholders to enter into the IRU Contracts with duration exceeding three years; and (ii) normal business practice for the provision of the IRU Contracts to be of a duration exceeding three years and be for a term up to 15 years.

The approximate aggregate value and the revised 2009 annual caps of each category of the CTC Transactions are set out below:

Category	Approximate aggregate value for the financial year ended December 31, 2009 (HK\$'000)	Revised Annual cap for the CTC Group for the financial year ended December 31, 2009 (HK\$'000)
(1) Provision of data services by the Group to the CTC Group	221,004	650,000
(2) Provision of data services by the CTC Group to the Group	356,730	820,000
(3) Provision of systems integration services by the Group to the CTC Group	88,004	1,400,000

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

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

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

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

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

CONTINUING CONNECTED TRANSACTIONS (CONTINUED)**2. China United Network Communications Group Company Limited (“Unicom”) and its subsidiaries and associates (collectively the “Unicom Group”) (continued)**

As referred to in the Company’s announcement dated January 23, 2009, the Company set an annual cap for each of the following categories of the Unicom Transactions for each of the three financial years ending December 31, 2011 based on the nature of transactions from time to time entered into with the Unicom Group:

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

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

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

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

Category	Approximate aggregate value for the financial year ended December 31, 2009 (HK\$'000)	Annual cap for the Unicom Group for the financial year ended December 31, 2009 (HK\$'000)
(1) Provision of data services by the Group to the Unicom Group	91,550	300,000
(2) Provision of data services by the Unicom Group to the Group	162,295	400,000
(3) Provision of systems integration services by the Group to the Unicom Group	172,823	400,000

CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

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

Regarding the Lease and Facility and Management Services, 電訊盈科信息技術(廣州)有限公司 (PCCW Solutions (Guangzhou) Limited) (“PCCW GZ”), an indirect wholly-owned subsidiary of the Company, entered into a lease and facility and management services agreement (the “Agreement”) with 中國網絡通信集團公司廣東省分公司 (China Network Communications Group Corporation Guangdong Branch) (“CNC GD”), the Guangdong branch of CNC in January 2008 with duration exceeding three years. Pursuant to the Agreement, CNC GD will lease to PCCW GZ an area for use as a service centre and provide PCCW GZ with facility and management services in respect of certain area in CNC Science Town Telecommunications Hub Building situated in the Guangzhou Science Town, Guangdong Province, the PRC. As disclosed in the Company’s announcement dated January 4, 2008, Access Capital Limited, an independent financial adviser, which was appointed by the Company in accordance with the Listing Rules, was of the view that the transactions under the Agreement may enhance and safeguard the business and performance of the Group, and the interests of the Company and its shareholders as a whole, and given the nature of the lease and the services to be provided by CNC GD under the Agreement and any supplemental agreement when it is entered into, it is normal business practice for the Agreement and the supplemental agreement in relation to the optional extended areas (if and when it is entered into when the area extension option is exercised by PCCW GZ pursuant to the Agreement), if any, to have a duration of 15 years, with an option to renew for another five years. The approximate service fees charged by CNC GD for the year ended December 31, 2009 was HK\$487,928 which did not exceed the annual cap for the second year of the 15-year term of HK\$29,580,000.

3. Annual Review of Continuing Connected Transactions

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged an external auditor of the Company to perform certain agreed-upon procedures in respect of the CTC Transactions and the CU Transactions entered into by the Group for the year ended December 31, 2009.

The external auditor has reported their factual findings on these procedures to the Board that the samples the external auditor selected for the CTC Transactions and the CU Transactions were in agreement in respect of items (ii), (iii) and (iv) below. The external auditor confirmed to the Board in writing that for the year ended December 31, 2009, the CTC Transactions and the CU Transactions:

- (i) were approved by the Board;
- (ii) were in accordance with the pricing policies of the Group if the CTC Transactions and the CU 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 CU Transactions; and
- (iv) did not exceed the respective annual caps of the CTC Transactions and the CU Transactions disclosed in the Company’s previous announcements.

The Board, including the independent non-executive directors of the Company, has reviewed and confirmed that the CTC Transactions and the CU Transactions for the year ended December 31, 2009 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 obtained from the independent third parties; and
- (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in normal course of business are set out in note 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, 2009 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 9, 2010

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 52 to 137, which comprise the consolidated and company balance sheets as at December 31, 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company statements 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, 2009 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 9, 2010

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2009

In HK\$ million (except for earnings per share)	Note(s)	2009	2008
Turnover	5 & 6	25,077	31,951
Cost of sales		(12,254)	(17,850)
General and administrative expenses		(9,029)	(10,005)
Other gains/(losses), net	7	168	(464)
Losses on property, plant and equipment	8	(61)	(103)
Interest income		18	197
Finance costs	10	(1,485)	(1,473)
Share of results of associates		61	27
Share of results of jointly controlled companies		(116)	(16)
Impairment losses reversed/(recognized) on interests in an associate and a jointly controlled company		1	(31)
Profit before income tax	6 & 9	2,380	2,233
Income tax	12(a)	(585)	(711)
Profit for the year		1,795	1,522
Attributable to:			
Equity holders of the Company		1,506	1,272
Minority interests		289	250
Profit for the year		1,795	1,522
Earnings per share	15		
Basic		22.24 cents	18.78 cents
Diluted		22.23 cents	18.77 cents

The notes on pages 58 to 137 form part of these consolidated financial statements. Details of dividend payable to equity holders of the Company attributable to the profit for the year are set out in note 14.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2009

In HK\$ million	2009	2008
Profit for the year	1,795	1,522
Other comprehensive income		
Translation exchange differences:		
– exchange differences on translating foreign operations	263	158
– reclassification adjustments	(73)	–
Available-for-sale financial assets:		
– changes in fair value	81	(105)
– transfer to income statement on impairment	–	74
Cash flow hedges:		
– effective portion of changes in fair value	(120)	247
– transfer from equity to income statement	(51)	75
Other comprehensive income for the year	100	449
Total comprehensive income for the year	1,895	1,971
Attributable to:		
Equity holders of the Company	1,624	1,605
Minority interests	271	366
Total comprehensive income for the year	1,895	1,971

The notes on pages 58 to 137 form part of these consolidated financial statements.

CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY

For the year ended December 31, 2009

In HK\$ million

	Note(s)	Attributable to equity holders of the Company	2009 The Group		2009 The Company
			Minority interests	Total equity	Total equity
At January 1, 2009		1,735	3,165	4,900	37,405
Total comprehensive income for the year		1,624	271	1,895	22
Special dividend declared and paid during the year	14 & 33	(8,804)	–	(8,804)	(8,804)
Dividend declared and paid to minority shareholders of a subsidiary		–	(19)	(19)	–
Increase in minority interests arising from acquisition of subsidiaries	43	–	3	3	–
At December 31, 2009		(5,445)	3,420	(2,025)	28,623

In HK\$ million

	Note(s)	Attributable to equity holders of the Company	2008 The Group		2008 The Company
			Minority interests	Total equity	Total equity
At January 1, 2008		1,552	2,799	4,351	56,409
Total comprehensive income/(expense) for the year		1,605	366	1,971	(17,582)
Repurchase of shares		(49)	–	(49)	(49)
Exercise of employee share options		16	–	16	16
		(33)	–	(33)	(33)
Dividend paid in respect of the previous year	14 & 33	(915)	–	(915)	(915)
Dividend declared and paid in respect of the current year	14 & 33	(474)	–	(474)	(474)
At December 31, 2008		1,735	3,165	4,900	37,405

The notes on pages 58 to 137 form part of these consolidated financial statements.

CONSOLIDATED AND COMPANY BALANCE SHEETS

As at December 31, 2009

In HK\$ million	Note	The Group		The Company	
		2009	2008	2009	2008
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	16	16,300	17,092	–	–
Investment properties	17	3,794	3,785	–	–
Interests in leasehold land	18	575	593	–	–
Properties held for/under development	19	904	1,546	–	–
Goodwill	20	3,096	3,000	–	–
Intangible assets	21	1,728	1,885	–	–
Investments in subsidiaries	22	–	–	12,089	12,089
Interest in associates	23	189	674	–	–
Interest in jointly controlled companies	24	514	268	–	–
Held-to-maturity investments		3	5	–	–
Available-for-sale financial assets	25	325	244	–	–
Amounts due from related companies	4(d)	–	3	–	–
Deferred income tax assets	34(a)	65	48	–	–
Other non-current assets		441	392	–	–
		27,934	29,535	12,089	12,089
Current assets					
Properties under development	19	–	331	–	–
Properties for sale	19	698	2,071	–	–
Amounts due from subsidiaries	22(a)	–	–	16,586	19,408
Sales proceeds held in stakeholders' accounts	26(a)	1,271	6,994	–	–
Restricted cash	26(b)	1,001	823	52	103
Prepayments, deposits and other current assets	26(c)	2,488	1,961	9	31
Inventories	26(d)	992	1,016	–	–
Amounts due from related companies	4(d)	8	35	–	–
Derivative financial instruments	29	108	230	–	–
Trade receivables, net	26(e)	2,418	4,317	–	–
Tax recoverable		16	8	–	–
Cash and cash equivalents	37(d)	8,049	9,284	93	5,838
		17,049	27,070	16,740	25,380
Current liabilities					
Short-term borrowings	26(f)	(246)	–	(200)	–
Trade payables	26(g)	(1,645)	(1,700)	–	–
Accruals and other payables		(4,441)	(5,241)	(6)	(27)
Amount payable to the Government under the Cyberport Project Agreement	28	(833)	(4,981)	–	–
Mobile carrier licence fee liabilities	35	(85)	(76)	–	–
Amounts due to related companies	4(d)	(42)	(585)	–	–
Gross amounts due to customers for contract work	26(h)	–	(5)	–	–
Advances from customers		(1,768)	(2,224)	–	–
Current income tax liabilities		(767)	(1,911)	–	(37)
		(9,827)	(16,723)	(206)	(64)
Net current assets		7,222	10,347	16,534	25,316
Total assets less current liabilities		35,156	39,882	28,623	37,405

CONSOLIDATED AND COMPANY BALANCE SHEETS (CONTINUED)

As at December 31, 2009

In HK\$ million	Note	The Group		The Company	
		2009	2008	2009	2008
Non-current liabilities					
Long-term borrowings	27	(34,667)	(31,745)	–	–
Deferred income tax liabilities	34(a)	(1,276)	(714)	–	–
Deferred income		(651)	(670)	–	–
Defined benefit liability	31(a)(i)	(5)	(7)	–	–
Amount payable to the Government under the Cyberport Project Agreement	28	–	(1,195)	–	–
Mobile carrier licence fee liabilities	35	(480)	(512)	–	–
Other long-term liabilities		(102)	(139)	–	–
		(37,181)	(34,982)	–	–
Net (liabilities)/assets		(2,025)	4,900	28,623	37,405
CAPITAL AND RESERVES					
Share capital	30	1,693	1,693	1,693	1,693
(Deficit)/Reserves	33	(7,138)	42	26,930	35,712
Equity attributable to equity holders of the Company		(5,445)	1,735	28,623	37,405
Minority interests		3,420	3,165	–	–
Total equity		(2,025)	4,900	28,623	37,405

Approved and authorized for issue by the Board of Directors on March 9, 2010 and signed on behalf of the Board by

Alexander Anthony Arena
Director

Chung Cho Yee, Mico
Director

The notes on pages 58 to 137 form part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2009

In HK\$ million	Note	2009	2008
NET CASH GENERATED FROM OPERATING ACTIVITIES	37(a)	7,940	6,462
INVESTING ACTIVITIES			
Proceeds from disposals of property, plant and equipment		7	36
Purchases of property, plant and equipment		(1,604)	(3,286)
Purchases of other intangible assets		(1,000)	(1,191)
Acquisition of the business of subsidiaries (net of cash and cash equivalents acquired)	37(b)	(84)	–
Loan to a jointly controlled company		(259)	–
Proceeds from disposal of subsidiaries (net of cash and cash equivalents disposed of)	37(c)	842	–
Payments for termination of derivative financial instruments		–	(12)
Proceeds from termination of derivative financial instruments		–	97
Purchases of available-for-sale financial assets		–	(124)
Proceeds from disposals of available-for-sale financial assets and held-to-maturity investments		2	68
Proceeds from disposals of financial assets at fair value through profit or loss		–	12
Interest received		86	101
Dividend received from a jointly controlled company and an associate		16	9
Proceeds from expiry of leases		91	112
Loan repayment from a jointly controlled company		–	10
NET CASH USED IN INVESTING ACTIVITIES		(1,903)	(4,168)
FINANCING ACTIVITIES			
Proceeds from exercise of employee share options		–	16
Finance fees paid for new borrowings raised		–	(237)
New borrowings raised		7,730	23,073
Interest paid		(1,507)	(1,439)
Repayments of borrowings		(4,719)	(16,647)
Dividends paid to shareholders of the Company		(8,804)	(1,389)
Dividends paid to minority shareholders of a subsidiary		(19)	–
Repurchase of shares		–	(49)
Decrease in restricted cash		50	3
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES		(7,269)	3,331
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(1,232)	5,625
Exchange differences		(3)	(19)
CASH AND CASH EQUIVALENTS			
Beginning of year		9,284	3,678
End of year	37(d)	8,049	9,284

The notes on pages 58 to 137 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

(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 primarily in Hong Kong, and also in mainland China and elsewhere in the Asia Pacific region; investments in, and development of, systems integration, network engineering, and technology-related businesses; and investments in, and development of, infrastructure and properties in Hong Kong, mainland China and elsewhere in the Asia Pacific and Middle East regions.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

a. Statement of compliance

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

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:

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

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

b. Basis of preparation of the financial statements

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

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

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

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

The consolidated financial statements for the year ended December 31, 2009 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.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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 businesses are acquired, fair values of the net assets of the acquired business are finalized within 12 months of the acquisition date. All fair value adjustments are recorded with effect from the date of acquisition and consequently may result in the restatement of previously reported financial results (see note 43(a)).

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 gains/(losses), 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.

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.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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 and any impairment losses for the year. The consolidated statement of comprehensive income includes the Group's share of the post-acquisition post-tax items of the associates' other comprehensive income.

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

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

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/freehold land, where the fair value of the building could be measured separately from the fair value of the leasehold/freehold land at the inception of the lease (see note 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.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

f. Property, plant and equipment (continued)

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 30 years
Other plant and equipment	Over the shorter of 1 to 17 years and the term of lease

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

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. Property that is being constructed or developed for future use as investment property is classified as investment properties.

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(y)(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.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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(y)(iv).

iii. Operating lease charges

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

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

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

i. Properties held for/under development (continued)

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.

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.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

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

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.

m. Investments in debt and equity securities

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

Investments in debt and equity securities are initially recognized at fair value plus transaction costs, except as indicated otherwise below. The fair value of quoted investments is based on current bid price. For unlisted securities or financial assets without an active market, the Group established fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs. If none of the valuation techniques results in a reasonable estimate on the fair value, the investment is stated on the balance sheet at cost less impairment losses (see note 2(n)(i)). The investments are subsequently accounted for based on their classification as set out below:

i. Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are classified as current assets, if they are either held for trading or are expected to be realized within 12 months from the balance sheet date. Any attributable transaction costs are recognized in the income statement as incurred. At each balance sheet date, the fair value is 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(y)(vi) and 2(y)(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)).

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

m. Investments in debt and equity securities (continued)

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 in other comprehensive income and accumulated separately 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(y) (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(y)(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.

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

n. Impairment of assets

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

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

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganization;
- 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.

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)

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

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

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

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

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

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

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.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

n. Impairment of assets (continued)

ii. Impairment of other assets (continued)

– 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.

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.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

p. Hedging (continued)

ii. Cash flow hedge

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

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

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

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

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

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.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

s. Construction contracts

The accounting policy for contract revenue is set out in note 2(y)(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 amounts due from customers for contract work" (as an asset) or the "Gross amounts due to customers for contract work" (as a liability), as applicable. Progress billings for work performed on a contract not yet paid by customers are included in the balance sheet under "Trade receivables, net".

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.

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. 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.

y. 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)

y. 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.

viii. Dividend income

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

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

z. 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.

aa. Income tax

- i. Income tax for the year comprises current income tax and movements in deferred income tax assets and liabilities. Current income tax and movements in deferred income tax assets and liabilities are recognized in the income statement except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts are recognized in other comprehensive income or directly in equity, respectively.
- ii. Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to income tax payable in respect of previous year.
- iii. Deferred income tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases. Deferred income tax assets also arise from unused tax losses and unused tax credits.

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

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

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

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

aa. Income tax (continued)

- iv. Current income tax balances and deferred income tax balances, and movements therein, are presented separately from each other and are not offset. Current income tax assets are offset against current income tax liabilities, and deferred income tax assets against deferred income tax liabilities, if the Company or the Group has the legally enforceable right to set off current income tax assets against current income tax liabilities and the following additional conditions are met:
- in the case of current income tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
 - in the case of deferred income tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred income tax liabilities or assets are expected to be settled or recovered, intend to realize the current income tax assets and settle the current income tax liabilities on a net basis or realize and settle simultaneously.

bb. 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 exceed 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)**bb. 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 expire (when it is released directly to retained profits or deficit). Share options granted before November 7, 2002 or granted after November 7, 2002 but vested on or before December 31, 2004 are not expensed as they are not subject to the requirements of HKFRS 2. When the share options are exercised, the proceeds received, net of any directly attributable transaction cost, are credited to share capital (nominal value) and share premium.

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.

cc. 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.

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.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

cc. Translation of foreign currencies (continued)

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

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

dd. 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.

ee. Segment reporting

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

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

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

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 and rapid advancement in technology. The Group extends or shortens the useful lives and/or makes impairment provisions according to the results of the review.

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

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

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

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

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

If an indication of impairment is identified, such information is further subject to an exercise that requires the Group to estimate the recoverable value, representing the greater of the asset's fair value less cost to sell or its value in use. Depending on the Group's assessment of the overall materiality of the asset under review and complexity of deriving reasonable estimates of the recoverable value, the Group may perform such 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.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Key sources of estimation uncertainty (continued)

iii. Revenue recognition

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

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

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

iv. Sales recognition on properties sold

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

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

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

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

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

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

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

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Key sources of estimation uncertainty (continued)

v. Amount payable to the Government under the Cyberport Project Agreement (continued)

Under the Cyberport Project Agreement, a Development Maintenance Account (the “DMA Account”) is established for the provision of funds (the “DMA Amount”) for the upkeep and maintenance of certain facilities commonly available to both tenants and visitors at the commercial portion of the Cyberport project (note 19(a)). In 2004, the DMA Amount was provisionally assessed at HK\$500 million which had been funded jointly by the Government and the Group to the DMA Account.

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

vi. Deferred income tax

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

vii. Current income tax

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

viii. Recognition of intangible asset – Mobile carrier licence

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

ix. Estimated valuation of investment properties

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Key sources of estimation uncertainty (continued)

x. Estimated property holding cost recoverable from the Government

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

xi. Recognition of fixed-mobile interconnection charge

The Office of the Telecommunications Authority of Hong Kong withdrew its regulatory guidance on the fixed-mobile interconnection charge ("FMIC") on April 27, 2009 as FMIC should be settled by commercial agreements between fixed and mobile operators without regulatory intervention. The Group continued providing to and receiving from other operators interconnection services but it has yet to reach commercial agreements with them. Pending on reaching commercial agreements on FMIC with the other operators, the Group has stopped recognizing FMIC revenue from April 27, 2009 but has continued to provide for potential FMIC costs.

4 RELATED PARTY TRANSACTIONS

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

In HK\$ million	Note(s)	The Group 2009	2008
Telecommunications service fees, rental charges, facility management services and subcontracting charges received or receivable from a jointly controlled company	a & c	75	104
Telecommunications service fees and systems integration charges received or receivable from a substantial shareholder	a	169	95
Telecommunications service fees, outsourcing fees and rental charges paid or payable to a jointly controlled company	a & c	591	773
Telecommunications service fees paid or payable to a substantial shareholder	a	156	139
Key management compensation	b	105	80

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

b. Details of key management compensation

In HK\$ million	The Group 2009	2008
Salaries and other short-term employee benefits	101	76
Post-employment benefits	4	4
	105	80

c. Details of transactions with a jointly controlled company of a subsidiary (the "JV")

On April 16, 2005, the Company agreed with Telstra Corporation Limited ("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, 2009, the outsourcing fees paid or payable by the Group to the JV, determined on a cost plus basis, were HK\$451 million (2008: HK\$591 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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(Amount expressed in Hong Kong dollars unless otherwise stated)

4 RELATED PARTY TRANSACTIONS (CONTINUED)

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 approximately US\$1 million (approximately HK\$6 million) (2008: US\$1 million (approximately HK\$9 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	
	2009	2008
Telecommunications and other service revenue	19,126	19,602
Amounts received and receivable in respect of goods sold	1,861	2,541
Amounts received and receivable in respect of properties sold	3,855	9,551
Amounts received and receivable from rental of investment properties	235	257
	25,077	31,951

6 SEGMENT INFORMATION

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

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

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

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

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

6 SEGMENT INFORMATION (CONTINUED)

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

In HK\$ million	2009							Consolidated
	TSS	TV & Content	Mobile	PCCW Solutions	PCPD	Other Businesses	(Eliminations)/ Unallocated	
REVENUE								
External revenue	15,836	2,033	1,670	1,334	4,162	42	-	25,077
Inter-segment revenue	456	317	-	510	60	19	(1,362)	-
Total revenue	16,292	2,350	1,670	1,844	4,222	61	(1,362)	25,077
RESULTS								
EBITDA	7,050	4	265	209	781	(810)	-	7,499
OTHER INFORMATION								
Capital expenditure (including property, plant and equipment, investment properties and interests in leasehold land) incurred during the year	1,138	80	237	44	43	54	72	1,668
In HK\$ million	2008							
	TSS	TV & Content	Mobile	PCCW Solutions	PCPD	Other Businesses	(Eliminations)/ Unallocated	Consolidated
REVENUE								
External revenue	16,958	1,989	1,744	1,317	9,876	67	-	31,951
Inter-segment revenue	507	250	-	549	67	19	(1,392)	-
Total revenue	17,465	2,239	1,744	1,866	9,943	86	(1,392)	31,951
RESULTS								
EBITDA	7,456	(83)	242	195	1,268	(1,096)	-	7,982
OTHER INFORMATION								
Capital expenditure (including property, plant and equipment, investment properties and interests in leasehold land) incurred during the year	2,180	202	630	42	133	87	68	3,342

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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6 SEGMENT INFORMATION (CONTINUED)

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

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

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

In HK\$ million	Revenue from external customers	
	2009	2008
Hong Kong (place of domicile)	22,136	29,153
Mainland China (excluding Hong Kong) and Taiwan	1,656	1,734
Others	1,285	1,064
	25,077	31,951

7 OTHER GAINS/(LOSSES), NET

In HK\$ million	The Group	
	2009	2008
Net realized gains on disposal of available-for-sale financial assets	–	60
Net realized gains on disposal of subsidiaries (<i>note 37(c)</i>)	232	–
Impairment loss on goodwill	(96)	(12)
Provision for impairment of investments	–	(161)
Net realized and unrealized fair value gains on derivative financial instruments	–	28
Fair value gains/(losses) on investment properties	1	(396)
Dividend income	4	2
Net gain on cash flow hedging instruments transferred from equity	42	30
Others	(15)	(15)
	168	(464)

8 LOSSES ON PROPERTY, PLANT AND EQUIPMENT

In HK\$ million	The Group	
	2009	2008
Impairment losses on property, plant and equipment (<i>note a</i>)	61	49
Write-off of projects under construction	–	54
	61	103

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\$61 million (2008: HK\$49 million) in the consolidated income statement for the year ended December 31, 2009.

9 PROFIT BEFORE INCOME TAX

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

a. Staff costs

In HK\$ million	The Group	
	2009	2008
Retirement costs for directors	3	3
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	221	225
	222	226
Salaries, bonuses and other benefits	2,247	2,461
	2,469	2,687

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9 PROFIT BEFORE INCOME TAX (CONTINUED)

b. Other items

In HK\$ million	The Group	
	2009	2008
Crediting:		
Dividend income from		
– listed investments	4	–
– unlisted investments	–	2
Exchange gains, net	–	51
Less: Cash flow hedges: transferred from equity	–	(104)
Gross rental income	235	257
Less: Outgoings	(31)	(26)
Charging:		
Losses on property, plant and equipment	61	103
Impairment loss for doubtful debts	351	275
Provision for inventory obsolescence	6	1
Depreciation of property, plant and equipment	2,677	2,824
Operating costs of property, plant and equipment	334	556
Amortization of land lease premium		
– interests in leasehold land	22	22
– properties under development	–	9
Amortization of intangible assets	1,081	841
Cost of inventories sold	1,932	2,494
Cost of properties sold	2,917	8,070
Cost of sales, excluding inventories and properties sold	7,405	7,286
Loss on disposal of property, plant and equipment	–	19
Exchange losses, net	11	–
Less: Cash flow hedges: transferred from equity	(10)	–
Auditors' remuneration	18	22
Operating lease rental		
– equipment	27	23
– other assets (including property rentals)	561	518

10 FINANCE COSTS

In HK\$ million	The Group	
	2009	2008
Interest paid/payable for:		
Overdrafts and bank borrowings wholly repayable within 5 years	491	489
Other borrowings wholly repayable within 5 years	792	556
Other borrowings not wholly repayable within 5 years	198	409
Notional accretion on mobile carrier licence fee liabilities	64	64
Other borrowing costs	3	8
Cash flow hedges: transferred from equity	1	1
	1,549	1,527
Interest capitalized in property, plant and equipment	(64)	(54)
	1,485	1,473

The capitalization rate used to determine the amount of interest eligible for capitalization for the year was 7.03% (2008: ranged from 4.67% to 5.83%).

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
2009

	Directors' fees		Salaries, allowances and benefits in kind		Bonuses ¹		Retirement scheme contributions		Total	
	(excluding PCPD)		(excluding PCPD)		(excluding PCPD)		(excluding PCPD)		(excluding PCPD)	
	PCCW	PCPD	PCCW	PCPD	PCCW	PCPD	PCCW	PCPD	PCCW	PCPD
Executive directors										
Li Tzar Kai, Richard	-	-	-	-	-	-	-	-	-	-
Alexander Anthony Arena	-	-	18.75 ²	-	5.00	-	1.41	-	25.16	-
Peter Anthony Allen	-	-	2.40 ²	-	-	-	-	-	2.40	-
Chung Cho Yee, Mico	-	-	2.40 ²	-	-	4.90 ³	-	-	2.40	4.90
Lee Chi Hong, Robert	-	-	-	7.33 ⁴	-	36.80 ⁵	-	1.13	-	45.26
Non-executive directors										
Sir David Ford	-	-	2.35	-	0.05	-	0.17	-	2.57	-
Lu Yimin	0.20 ⁶	-	-	-	-	-	-	-	0.20	-
Zuo Xunsheng	0.20 ⁷	-	-	-	-	-	-	-	0.20	-
Li Fushen	0.20 ⁸	-	-	-	-	-	-	-	0.20	-
Independent non-executive directors										
Professor Chang Hsin-kang	0.20	-	-	-	-	-	-	-	0.20	-
Dr The Hon Sir David Li Kwok Po	0.20	-	-	-	-	-	-	-	0.20	-
Sir Roger Lobo	0.20	-	-	-	-	-	-	-	0.20	-
Aman Mehta	0.40 ⁹	-	0.49	-	-	-	-	-	0.89	-
The Hon Raymond George Hardenbergh Seitz	0.30 ¹⁰	-	0.44	-	-	-	-	-	0.74	-
Tse Sze Wing, Edmund ¹¹	0.06	-	-	-	-	-	-	-	0.06	-
	1.96	-	26.83	7.33	5.05	41.70	1.58	1.13	35.42	50.16

Notes:

- Bonuses in respect of 2008 and 2009, paid in 2009.
- Excludes remuneration for duties performed for related companies.
- Bonus paid by a wholly owned subsidiary of PCPD.
- Remunerated by a wholly owned subsidiary of PCPD. Mr Robert Lee offered to waive the basic salary and housing benefits of HK\$3.67 million (2008: nil).
- The bonus payment was calculated in accordance with contractual term as stated in his employment contract.
- Fee receivable as a non-executive director in 2009 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Lu Yimin and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
- Fee receivable as a non-executive director in 2009 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Zuo Xunsheng and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
- Fee receivable as a non-executive director in 2009 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Li Fushen and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
- Includes HK\$100,000 fee as Chairman of Nomination Committee and HK\$100,000 fee as Chairman of Audit Committee.
- Includes HK\$100,000 fee as Chairman of Remuneration Committee.
- Appointed as an independent non-executive director with effect from September 10, 2009.

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(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 2008									
	Directors' fees		Salaries, allowances and benefits in kind		Bonuses ¹		Retirement scheme contributions		Total	
	(excluding PCPD)		(excluding PCPD)		(excluding PCPD)		(excluding PCPD)		(excluding PCPD)	
	PCPD	PCPD	PCPD	PCPD	PCPD	PCPD	PCPD	PCPD	PCPD	PCPD
Executive directors										
Li Tzar Kai, Richard	-	-	-	-	-	-	-	-	-	-
Alexander Anthony Arena	-	-	18.75	-	-	-	1.41	-	20.16	-
Peter Anthony Allen	-	-	4.08 ²	-	-	-	0.61	-	4.69	-
Chung Cho Yee, Mico	-	-	2.40 ³	-	-	3.00 ⁴	-	-	2.40	3.00
Lee Chi Hong, Robert	-	-	-	11.00	-	18.34	-	1.13	-	30.47
Non-executive directors										
Sir David Ford	-	-	2.81	-	-	-	0.21	-	3.02	-
Lu Yimin ⁷	0.12 ⁸	-	-	-	-	-	-	-	0.12	-
Zuo Xunsheng	0.20 ⁵	-	-	-	-	-	-	-	0.20	-
Li Fushen	0.20 ⁶	-	-	-	-	-	-	-	0.20	-
Zhang Chunjiang ⁹	0.08 ¹⁰	-	-	-	-	-	-	-	0.08	-
Independent non-executive directors										
Professor Chang Hsin-kang	0.20	-	-	-	-	-	-	-	0.20	-
Dr The Hon Sir David Li Kwok Po	0.20	-	-	-	-	-	-	-	0.20	-
Sir Roger Lobo	0.20	-	-	-	-	-	-	-	0.20	-
Aman Mehta	0.40 ¹¹	-	0.38	-	-	-	-	-	0.78	-
The Hon Raymond George Hardenbergh Seitz	0.30 ¹²	-	0.47	-	-	-	-	-	0.77	-
	1.90	-	28.89	11.00	-	21.34	2.23	1.13	33.02	33.47

Notes:

- Bonuses in respect of 2008, paid in 2008 and payable in 2009.
- Excludes remuneration for duties performed for related companies.
- Excludes remuneration for duties performed for related companies.
- Bonus paid by a wholly owned subsidiary of PCPD.
- Fee receivable as a non-executive director in 2008 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Zuo Xunsheng and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
- Fee receivable as a non-executive director in 2008 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Li Fushen and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
- Appointed as a non-executive director with effect from May 30, 2008.
- Fee receivable as a non-executive director in 2008 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Lu Yimin and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
- Resigned as a non-executive director with effect from May 28, 2008.
- Fee receivable as a non-executive director in 2008 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Zhang Chunjiang and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
- Includes HK\$100,000 fee as Chairman of Nomination Committee and HK\$100,000 fee as Chairman of Audit Committee.
- Includes HK\$100,000 fee as Chairman of Remuneration Committee.

11 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (CONTINUED)

b. Directors' emoluments – share-based compensation

	Grant date	Exercise price of share options HK\$	Number of share options/ shares outstanding at beginning of year	Number of share options granted/ (lapsed)/ shares awarded/ (lapsed)	The Group 2009		Number of share options vested	Share-based compensation charged to income statement (Note ii) HK\$ million	Value of shares transferred (Note i) HK\$ million
					Number of share options	Number of share options/ shares outstanding at end of year			
					exercised/ shares transferred				
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)	-	-	-	-	-
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)	-	-	-	-	-
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)	-	-	-	-	-
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)	-	-	-	-	-
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)	-	-	-	-	-
								-	-

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(Amount expressed in Hong Kong dollars unless otherwise stated)

11 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (CONTINUED)

b. Directors' emoluments – share-based compensation (continued)

	Grant date	Exercise price of share options	Number of share options/shares outstanding at beginning of year	Number of share options granted/ (lapsed)/ shares awarded/ (lapsed)	The Group 2008		Number of share options vested	Share-based compensation charged to income statement (Note ii)	Value of shares transferred (Note i)
					Number of share options exercised/ shares transferred	Number of share options/shares outstanding at end of year			
		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	-	-
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	-	-
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	-	-
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	-	-
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	-	-
								-	-

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 shares transferred would include the market value of the relevant shares at the date of exercise less the corresponding exercise price.

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.

11 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (CONTINUED)

c. Individuals with highest emoluments

- i. Of the five individuals with the highest emoluments, three (2008: three) are directors of the Company whose emoluments are disclosed in notes 11(a) and 11(b). The emoluments in respect of the non-director individuals in 2009 and 2008 were as follows:

In HK\$ million	The Group	
	2009	2008
Salaries, allowances and benefits in kind	7.62	7.60
Bonuses	10.61	5.60
Retirement scheme contributions	0.69	0.69
	18.92	13.89

- ii. The emoluments of the two (2008: two) non-director individuals are within the following emolument ranges :

	The Group Number of individuals	
	2009	2008
HK\$6,000,001 – HK\$6,500,000	–	1
HK\$7,500,001 – HK\$8,000,000	–	1
HK\$8,000,001 – HK\$8,500,000	1	–
HK\$10,500,001 – HK\$11,000,000	1	–
	2	2

12 INCOME TAX

a. Income tax in the consolidated income statement represents:

In HK\$ million	The Group	
	2009	2008
Hong Kong profits tax		
– provision for current year	233	1,845
– over provision in respect of prior years	(169)	(14)
Overseas tax		
– provision for current year	44	95
– (over)/under provision in respect of prior years	(73)	73
Movement of deferred income tax (note 34(a))	550	(1,288)
	585	711

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits for the year.

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

As a result of the change in the Hong Kong corporation tax rate from 17.5% to 16.5% that had been effective from April 1, 2008, deferred income tax balances had been remeasured and the effect on the change in corporate income tax rate applicable to the Group's operations in Hong Kong was recognized in the consolidated income statement for the year ended December 31, 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2009

(Amount expressed in Hong Kong dollars unless otherwise stated)

12 INCOME TAX (CONTINUED)

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

In HK\$ million	The Group	
	2009	2008
Profit before income tax	2,380	2,233
Notional tax on profit before income tax, calculated at applicable tax rate	393	368
Income not subject to tax	(7)	(36)
Expenses not deductible for tax purposes	162	234
Tax losses not recognized	310	132
Effect of eliminated group transactions	–	(32)
(Over)/under provision in prior years, net	(242)	59
Utilization of previously unrecognized tax losses	(32)	(15)
Recognition of previously unrecognized tax losses	(52)	–
Loss not deductible/(Income not subject to tax) for associates and jointly controlled companies	9	(2)
Reversal of deferred income tax due to change of tax rate	–	(92)
Current tax provision of overseas operations	44	95
Income tax expense	585	711

13 PROFIT/LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Profit of HK\$22 million (2008: Loss of HK\$17,582 million) attributable to equity holders of the Company was dealt with in the financial statements of the Company.

14 DIVIDENDS

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

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

15 EARNINGS PER SHARE

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

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

16 PROPERTY, PLANT AND EQUIPMENT

In HK\$ million

	The Group 2009					Total
	Land and buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	
Cost						
Beginning of year	1,243	11,639	12,843	9,986	2,492	38,203
Additions	–	483	560	490	135	1,668
Additions through acquisition of subsidiaries	–	–	–	40	–	40
Transfers	23	643	569	429	(1,641)	23
Disposals	–	(233)	(31)	(212)	–	(476)
Exchange differences	(3)	16	315	12	23	363
End of year	1,263	12,548	14,256	10,745	1,009	39,821
Accumulated depreciation and impairment						
Beginning of year	222	8,016	5,868	7,005	–	21,111
Charge for the year	46	1,019	801	811	–	2,677
Impairment losses	–	29	10	21	1	61
Disposals	–	(232)	(30)	(207)	–	(469)
Exchange differences	–	9	120	6	6	141
End of year	268	8,841	6,769	7,636	7	23,521
Net book value						
End of year	995	3,707	7,487	3,109	1,002	16,300
Beginning of year	1,021	3,623	6,975	2,981	2,492	17,092

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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(Amount expressed in Hong Kong dollars unless otherwise stated)

16 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

In HK\$ million	The Group					Total
	Land and buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	
Cost						
Beginning of year	1,167	11,100	12,243	8,941	2,016	35,467
Additions	49	701	444	751	1,397	3,342
Transfers	25	160	184	422	(791)	–
Disposals	–	(260)	(28)	(106)	–	(394)
Write-off	–	–	–	–	(54)	(54)
Exchange differences	2	(62)	–	(22)	(76)	(158)
End of year	1,243	11,639	12,843	9,986	2,492	38,203
Accumulated depreciation and impairment						
Beginning of year	178	7,098	5,120	6,219	–	18,615
Charge for the year	44	1,120	764	896	–	2,824
Impairment losses	–	38	–	11	–	49
Disposals	–	(224)	(16)	(99)	–	(339)
Exchange differences	–	(16)	–	(22)	–	(38)
End of year	222	8,016	5,868	7,005	–	21,111
Net book value						
End of year	1,021	3,623	6,975	2,981	2,492	17,092
Beginning of year	989	4,002	7,123	2,722	2,016	16,852

Certain property, plant and equipment with an aggregate carrying value of approximately HK\$77 million were pledged as security for certain bank borrowings of the Group as at December 31, 2009 (2008: nil). Please refer to note 42 for details of the Group's banking facilities.

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

In HK\$ million	The Group	
	2009	2008
Held in Hong Kong		
On long-term lease (over 50 years)	106	86
On medium-term lease (10–50 years)	791	833
Held outside Hong Kong		
Freehold	57	58
Leasehold		
On long-term lease (over 50 years)	1	1
On medium-term lease (10–50 years)	40	43
	995	1,021

16 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

In HK\$ million	The Company 2009 Other plant and equipment
Cost	
Beginning and end of year	2
Accumulated depreciation and impairment	
Beginning and end of year	2
Net book value	
Beginning and end of year	–
In HK\$ million	The Company 2008 Other plant and equipment
Cost	
Beginning of year	5
Disposals	(3)
End of year	2
Accumulated depreciation and impairment	
Beginning of year	3
Charge for the year	1
Disposals	(2)
End of year	2
Net book value	
End of year	–
Beginning of year	2

17 INVESTMENT PROPERTIES

In HK\$ million	The Group 2009	2008
Beginning of year	3,785	3,920
Transfer from properties under development	27	–
Transfer to land and buildings	(23)	–
Transfer to interests in leasehold land	(4)	–
Exchange differences	8	261
Fair value gains/(losses)	1	(396)
End of year	3,794	3,785

The majority of the investment properties are held outside Hong Kong and they were revalued as at December 31, 2009 by an independent valuer, who is a fellow of the Royal Institution of Chartered Surveyors. The basis of valuation for these investment properties was open market value.

In the consolidated income statement, cost of sales includes HK\$27 million (2008: HK\$26 million) direct operating expenses that generate rental income while HK\$12 million (2008: HK\$11 million) direct operating expenses relating to investment properties that were unlet.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2009

(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	
	2009	2008
Held in Hong Kong		
On medium-term lease (10–50 years)	7	6
Held outside Hong Kong		
On long-term lease (over 50 years)	749	748
On medium-term lease (10–50 years)	3,038	3,031
	3,794	3,785

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

As at December 31, 2009, 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	
	2009	2008
Within 1 year	195	202
After 1 year but within 5 years	172	257
After 5 years	26	29
	393	488

Investment properties with a carrying value of approximately HK\$3,787 million were pledged as security for certain bank borrowings of the Group as at December 31, 2009 (2008: nil). Please refer to note 42 for details of the Group's banking facilities.

18 INTERESTS IN LEASEHOLD LAND

In HK\$ million	The Group	
	2009	2008
Cost		
Beginning of year	819	819
Transfer from investment properties	4	–
End of year	823	819
Accumulated amortization		
Beginning of year	226	204
Charge for the year	22	22
End of year	248	226
Net book value		
End of year	575	593
Beginning of year	593	615

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 2009	2008
Held in Hong Kong		
On long-term lease (over 50 years)	90	89
On medium-term lease (10–50 years)	475	494
Held outside Hong Kong		
On medium-term lease (10–50 years)	10	10
	575	593

As at December 31, 2009, there was no leasehold land included in properties under development (2008: approximately HK\$773 million).

19 PROPERTIES HELD FOR/UNDER DEVELOPMENT/FOR SALE

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2009

(Amount expressed in Hong Kong dollars unless otherwise stated)

20 GOODWILL

In HK\$ million	The Group	
	2009	2008
Cost		
Beginning of year	3,070	3,074
Additions	191	–
Disposals	–	(8)
Exchange differences	1	4
End of year	3,262	3,070
Accumulated impairment		
Beginning of year	70	58
Impairment loss	96	12
End of year	166	70
Carrying amount		
End of year	3,096	3,000
Beginning of year	3,000	3,016

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	
	2009	2008
TSS		
PCCW Global	585	585
IP BPO Holdings Pte. Ltd. and its subsidiaries	189	–
	774	585
TV & Content		
PCCW Directories	162	162
Mobile	1,939	1,939
PCCW Solutions	126	126
PCPD	91	184
Others	4	4
Total	3,096	3,000

20 GOODWILL (CONTINUED)

Impairment tests for cash-generating units containing goodwill (continued)

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

Key assumptions used for value-in-use calculations:

	Gross margin	2009 Growth rate	Discount rate
PCCW Global	21.3%	3.0%	9.5%
PCCW Directories	56.8%	2.0%	16.0%
Mobile	66.7%	2.0%	13.5%

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 on goodwill as at December 31, 2009. 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 13.8% in the gross margin; or
- an increase of 5.1% 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.

The impairment losses recognized during the year related to the property development and ski operations of PCPD. As the recoverable amounts of these cash-generating units are less than the goodwill carrying amount, impairment losses are recognized and included in "Other gains/(losses), net" in the consolidated income statement during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2009

(Amount expressed in Hong Kong dollars unless otherwise stated)

21 INTANGIBLE ASSETS

In HK\$ million	The Group						Total
	2009	2009	2009	2009	2009	2009	
	Trademarks	Content licence	Wireless broadband licences	Mobile carrier licences	Customer acquisition costs	Others	
Cost							
Beginning of year	1,518	375	163	191	1,487	9	3,743
Additions through acquisition of subsidiaries	-	-	-	-	-	3	3
Additions	-	-	-	16	897	-	913
Write-off	-	-	-	-	(882)	-	(882)
Exchange differences	-	-	17	-	1	-	18
End of year	1,518	375	180	207	1,503	12	3,795
Accumulated amortization and impairment							
Beginning of year	635	375	88	34	718	8	1,858
Charge for the year (note a)	76	-	17	20	968	-	1,081
Write-off	-	-	-	-	(882)	-	(882)
Exchange differences	-	-	10	-	-	-	10
End of year	711	375	115	54	804	8	2,067
Net book value							
End of year	807	-	65	153	699	4	1,728
Beginning of year	883	-	75	157	769	1	1,885

In HK\$ million	The Group						Total
	2008	2008	2008	2008	2008	2008	
	Trademarks	Content licence	Wireless broadband licences	Mobile carrier licences	Customer acquisition costs	Others	
Cost							
Beginning of year	1,518	375	114	191	811	9	3,018
Additions	-	-	110	-	1,006	-	1,116
Write-off	-	-	-	-	(330)	-	(330)
Exchange differences	-	-	(61)	-	-	-	(61)
End of year	1,518	375	163	191	1,487	9	3,743
Accumulated amortization and impairment							
Beginning of year	559	375	100	22	316	8	1,380
Charge for the year (note a)	76	-	21	12	732	-	841
Write-off	-	-	-	-	(330)	-	(330)
Exchange differences	-	-	(33)	-	-	-	(33)
End of year	635	375	88	34	718	8	1,858
Net book value							
End of year	883	-	75	157	769	1	1,885
Beginning of year	959	-	14	169	495	1	1,638

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	
	2009	2008
Unlisted shares, at cost	130,780	130,780
Capital contribution in respect of employee share-based compensation	283	283
	131,063	131,063
Less: Provision for impairment in value	(118,974)	(118,974)
	12,089	12,089

The provision for impairment in value of HK\$118,974 million (2008: HK\$118,974 million) relates to certain subsidiaries of the Company which hold the Group's investments in subsidiaries, associates, jointly controlled companies, debt and equity securities.

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

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

a. Amounts due from subsidiaries

In HK\$ million	The Company	
	2009	2008
Amounts due from subsidiaries	58,426	61,248
Less: Provision for impairment	(41,840)	(41,840)
	16,586	19,408

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

As at December 31, 2009, 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\$111 million (2008: US\$113 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.

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22 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

As at December 31, 2009, particulars of the principal subsidiaries of the Company are as follows:

Company name	Place of incorporation/ operations	Principal activities	Nominal value of issued capital/ registered capital	Interest held by the Company	
				Directly	Indirectly
HKT Group Holdings Limited ("HKTGH")	Cayman Islands	Investment holding	US\$636,000,001	–	100%
Hong Kong Telecommunications (HKT) Limited ("HKT")	Hong Kong	Provision of telecommunications services	HK\$2,488,200,001	–	100%
PCCW-HKT Limited	Hong Kong	Investment holding	HK\$6,092,100,052	–	100%
HKT Media Holdings Limited	Cayman Islands	Investment holding	US\$2	–	100%
HKT Solutions Holdings Limited	Cayman Islands	Investment holding	US\$2	–	100%
PCCW-HKT Network Services Limited	Hong Kong	Global communications solutions and connectivity business	HK\$3	–	100%
PCCW-HKT Technical Services Limited	Hong Kong	Provision of technical support services, electronics and communications engineering, products and solutions	HK\$500,002	–	100%
PCCW Media Limited	Hong Kong	Provision of pay television programme services, interactive multimedia services and publishing	HK\$3,500,000,101 (HK\$3,500,000,096 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 ²	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%
PCCW Global (HK) Limited	Hong Kong	Provision of satellite-based and network-based telecommunications services	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/ operations	Principal activities	Nominal value of issued capital/ 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\$172,124,441.71	–	100%
PCCW Global (UK) Limited	United Kingdom	Provision of telecommunication solution resale services to customers and the provision of sales and marketing services to group companies	GBP1	–	100%
電訊盈科(北京)有限公司 ¹	The PRC	Systems integration, consulting and informatization project	US\$10,250,000	–	100%
Unihub China Information Technology Company Limited ²	The PRC	Selling of hardware and software and information system consulting services	RMB200,000,000	–	38.2%
PCCW Solutions Limited	Hong Kong	Provision of computer services and IP/IT related value-added services to business customers	HK\$1,201	–	100%
電訊盈科信息技術(廣州)有限公司 ²	The PRC	Systems integration and technology consultancy	HK\$12,600,000	–	100%
PCCW Business eSolutions Limited	Hong Kong	Provision of IP/IT related value-added services to business customers	HK\$2	–	100%
PCCW Powerbase Data Center Services (HK) Limited	Hong Kong	Provision of data center services	HK\$2	–	100%
Power Logistics Limited	Hong Kong	Provision of logistics services	HK\$100,000	–	100%
Pacific Century Premium Developments Limited	Bermuda/ Hong Kong	Investment holding	HK\$240,745,987	–	61.53%
Cyber-Port Limited	Hong Kong	Property development	HK\$2	–	61.53%
Beijing Jing Wei House and Land Estate Development Co., Ltd. ²	The PRC	Property development	US\$100,000,000	–	61.53%
Talent Master Investments Limited	British Virgin Islands/ Hong Kong	Property development	US\$1	–	61.53%
Nihon Harmony Resorts KK ¹	Japan	Ski operation	JPY405,000,000	–	61.53%
PCCW Mobile HK Limited	Hong Kong	Provision of mobile services, and sales of mobile phones and accessories	HK\$1,254,000,100 (HK\$100 ordinary shares, and HK\$1,254,000,000 non-voting deferred shares)	–	100%
HKT Global (Singapore) Pte. Ltd.	Singapore	Provision of Telecommunications Solutions related services	S\$1	–	100%
Interactive Teleservices Corporation	Nebraska, U.S.A.	Telemarketing and direct marketing services	US\$1,169	–	70%
PCCW Productions Limited	Hong Kong	Production of content for different media	HK\$2	–	100%
UK Broadband Limited	United Kingdom	Public fixed wireless access licence businesses	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 June 30. This subsidiary prepares, for the purpose of consolidation, financial statements as at the same date as the Group.
- 2 Represents a wholly foreign owned enterprise.
- 3 Represents a sino-foreign equity joint venture.

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23 INTEREST IN ASSOCIATES

In HK\$ million	The Group	
	2009	2008
Share of net assets of associates	248	734
Loans due from associates	78	78
Amount due from an associate	34	34
	360	846
Provision for impairment	(171)	(172)
	189	674
Investments at cost, unlisted shares	812	975

Balances with associates are unsecured, non-interest bearing and have no fixed terms of repayment.

As at December 31, 2009, particulars of the principal associates of the Group are as follows:

Company name	Place of incorporation/ operations	Principal activities	Nominal value of issued capital/ registered capital	Interest held by the Company	
				Directly	Indirectly
Abacus Distribution Systems (Hong Kong) Limited	Hong Kong	Provision of computer reservation systems and travel related services	HK\$15,600,000	–	37.04%
石化盈科信息技術 有限責任公司	The PRC	Design and development of Enterprise Resource Planning systems, and customer relationship management systems	RMB50,000,000	–	45%

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

In HK\$ million	2009	2008
Total assets	877	1,995
Total liabilities	(357)	(566)
Turnover	1,022	898
Profit after income tax	204	55

During the year ended December 31, 2009, the Group did not have any unrecognized share of losses of associates (2008: HK\$2 million). As at December 31, 2009, the accumulated share of losses of the associates unrecognized by the Group was nil (2008: HK\$10 million).

24 INTEREST IN JOINTLY CONTROLLED COMPANIES

In HK\$ million	The Group	
	2009	2008
Share of net assets of jointly controlled companies	3,093	3,105
Loans due from jointly controlled companies	267	8
Amounts due from jointly controlled companies	23	23
	3,383	3,136
Provision for impairment	(2,869)	(2,868)
	514	268
Investments at cost, unlisted shares	3,546	3,439

Balances with jointly controlled companies are unsecured, non-interest bearing and have no fixed terms of repayment except that the loan to a jointly controlled company of HK\$259 million bears interests at HIBOR plus 3% per annum.

As at December 31, 2009, particulars of the principal jointly controlled companies of the Group are as follows:

Company name	Place of incorporation	Principal activities	Nominal value of issued capital/ registered capital	Interest held by the Company	
				Directly	Indirectly
Reach Ltd.	Bermuda	Provision of international telecommunication services	US\$5,890,000,000	–	50%
網通寬帶網絡 有限責任公司	The PRC	Provision of telecommunication services and IPTV services	RMB644,518,697	–	50%
Genius Brand Limited	Hong Kong	Telecommunication business	HK\$10,000	–	50%

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

In HK\$ million	2009	2008
Non-current assets	1,443	1,117
Current assets	541	637
Total assets	1,984	1,754
Non-current liabilities	(1,348)	(1,330)
Current liabilities	(758)	(801)
Net liabilities	(122)	(377)
Turnover	1,998	2,359
Expenses	(2,139)	(2,371)
Loss before income tax	(141)	(12)
Income tax	(4)	6
Loss after income tax	(145)	(6)
Minority interests	(8)	–
Loss for the year	(153)	(6)

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25 AVAILABLE-FOR-SALE FINANCIAL ASSETS

In HK\$ million	The Group	
	2009	2008
Beginning of year	244	321
Additions	–	139
Disposals	–	(24)
Net gains/(losses) transfer from/(to) equity	81	(31)
Impairment losses recognized	–	(161)
End of year	325	244
In HK\$ million	The Group	
	2009	2008
Listed equity securities – overseas	59	17
Unlisted equity securities	266	227
	325	244
Market value of listed equity securities	59	17

As at December 31, 2009, the Group's equity securities were individually reviewed for impairment by management. Consequently, no provision for impairment was recognized in the consolidated income statement for the year ended December 31, 2009 (2008: HK\$161 million). The Group does not hold any collateral over these balances.

There was no disposal of available-for-sale financial assets in the year ended December 31, 2009. During the year ended December 31, 2008, available-for-sale financial assets with a carrying value of approximately HK\$24 million were sold and a realized gain of approximately HK\$60 million was recognized and included in "Other gains/(losses), net" in the consolidated income statement. There was no transfer from equity on this disposal.

No available-for-sale financial assets were pledged as security for bank borrowings of the Group as at December 31, 2009 and 2008.

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\$936 million as at December 31, 2009 (2008: HK\$720 million) held in specific bank accounts. The uses of the funds are specified in the Cyberport Project Agreement.

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

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

c. Prepayments, deposits and other current assets

Included in prepayments, deposits and other current assets were prepaid programme costs of approximately HK\$146 million as at December 31, 2009 (2008: HK\$89 million).

d. Inventories

In HK\$ million	The Group	
	2009	2008
Work-in-progress	715	829
Finished goods	232	148
Consumable inventories	45	39
	992	1,016

e. Trade receivables, net

In HK\$ million	The Group	
	2009	2008
Trade receivables (<i>note i</i>)	2,720	4,644
Less: Impairment loss for doubtful debts (<i>note ii</i>)	(302)	(327)
Trade receivables, net	2,418	4,317

i. Aging analysis of trade receivables

In HK\$ million	The Group	
	2009	2008
0 – 30 days	1,534	3,122
31 – 60 days	321	372
61 – 90 days	174	162
91 – 120 days	108	101
Over 120 days	583	887
	2,720	4,644

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26 CURRENT ASSETS AND LIABILITIES (CONTINUED)

e. Trade receivables, net (continued)

ii. Impairment loss for doubtful debts

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

In HK\$ million	The Group	
	2009	2008
Beginning of year	327	278
Impairment loss recognized	351	275
Uncollectible amounts written off	(376)	(232)
Exchange differences	–	6
End of year	302	327

As at December 31, 2009, the Group's trade receivables of HK\$205 million (2008: HK\$255 million) were 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\$205 million (2008: HK\$241 million) was recognized. The Group does not hold any collateral over these balances.

iii. Trade receivables that are not impaired

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

In HK\$ million	The Group	
	2009	2008
Neither past due nor impaired	1,222	2,956
0 – 30 days past due	445	387
31 – 60 days past due	186	159
61 – 90 days past due	123	118
Over 90 days past due	442	683
Past due but not impaired	1,196	1,347
	2,418	4,303

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

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

Certain trade receivables with an aggregate carrying value of approximately HK\$49 million were pledged as security for certain bank borrowings of the Group as at December 31, 2009 (2008: nil). Please refer to note 42 for details of the Group's banking facilities.

26 CURRENT ASSETS AND LIABILITIES (CONTINUED)

f. Short-term borrowings

In HK\$ million	The Group 2009	2008	The Company 2009	2008
Bank borrowings	246	–	200	–
Secured	46	–	–	–
Unsecured	200	–	200	–

Please refer to note 42 for details of the Group's banking facilities.

g. Trade payables

The aging analysis of trade payables is set out below:

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

h. Gross amounts due to customers for contract work

In HK\$ million	The Group 2009	2008
Contract costs incurred plus attributable profits less foreseeable losses	794	789
Less: Estimated value of work performed	(794)	(794)
	–	(5)

The total amount of progress billings, included in the estimated value of work performed as at December 31, 2009, was approximately HK\$794 million (2008: HK\$794 million).

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27 LONG-TERM BORROWINGS

In HK\$ million	The Group	
	2009	2008
Repayable within a period		
– over one year, but not exceeding two years	19,233	–
– over two years, but not exceeding five years	11,586	27,905
– over five years	3,848	3,840
	34,667	31,745
Representing:		
US\$1,000 million 8% guaranteed notes due 2011 (<i>note a</i>)	7,736	7,722
US\$500 million 6% guaranteed notes due 2013 (<i>note b</i>)	3,862	3,856
US\$500 million 5.25% guaranteed notes due 2015 (<i>note c</i>)	3,848	3,840
Bank borrowings	19,221	16,327
	34,667	31,745
Secured (<i>note d</i>)	11	–
Unsecured	34,656	31,745

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”). 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, HKTGH and HKT and will rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC, HKTGH and HKT.

b. 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, HKTGH and HKT and will rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC, HKTGH and HKT.

c. 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. The notes are irrevocably and unconditionally guaranteed by HKTC, HKTGH and HKT and will rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC, HKTGH and HKT.

27 LONG-TERM BORROWINGS (CONTINUED)

d. Secured bank borrowings

On September 22, 2009, a non-wholly owned subsidiary of the Group entered into the RMB Facility Agreement (the “RMB Facility”) which the lender would make available a term loan facility up to the aggregate amount of RMB10 million. Any loan made under the RMB Facility must be repaid on or before September 24, 2012. The RMB Facility is secured by the assets owned by the non-wholly owned subsidiary. No voluntary prepayment of RMB Facility is required unless and until the HKD Facility (as stated below) has been discharged. On December 10, 2009, the non-wholly owned subsidiary made a draw down of RMB10 million under the RMB Facility.

On September 22, 2009, a non-wholly owned subsidiary of the Company was granted a three-year revolving loan facility up to an aggregate amount of HK\$2,800 million (the “HKD Facility”). Such facility is secured by the shares and assets of certain non-wholly owned subsidiaries. In case the RMB Facility is in default, the lenders under the HKD Facility could demand for immediate repayment of principal and interest accrued under the HKD Facility. No drawdown under this revolving loan facility was made by the Group as at December 31, 2009.

The HKD Facility is subject to the fulfillment of covenants relating to certain balance sheet ratios of certain subsidiaries of the Group, as are commonly found in lending arrangements with financial institutions. If the covenants were breached, the drawn down facilities would have become payable on demand. The Group regularly monitors its compliance with these covenants. As at December 31, 2009, none of the covenants relating to drawn down facilities was breached.

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

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

b. Pursuant to the Cyberport Project Agreement, a provision of HK\$500 million has been made in respect of DMA Amount (see note 3(v)) of the Cyberport project.

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29 DERIVATIVE FINANCIAL INSTRUMENTS

In HK\$ million	The Group	
	2009	2008
Current assets		
Cross currency swap contracts – cash flow hedges (<i>note a</i>)	108	230
Interest rate option contract – held for trading (<i>note b</i>)	–	–
	108	230

a. As at December 31, 2009, the Group had outstanding cross currency swap contracts with notional contract amounts of US\$2,000 million (approximately HK\$15,510 million) (2008: US\$2,000 million (approximately HK\$15,591 million) at various rates, to manage the Group's exposure to foreign currency fluctuations.

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 the balance sheet date.

All cross currency swap contracts outstanding as at December 31, 2009 and 2008 with notional contract amounts of US\$2,000 million (approximately HK\$15,510 million) were designated as cash flow hedges of the foreign exchange rate risk in the Group's foreign currency denominated borrowings. Maturity of these swaps matches with the maturity of the underlying borrowings and has fixed the USD/HKD exchange rate at 7.7790 to 7.8014 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. As at December 31, 2009, the Group did not enter into any interest rate option contracts. As at December 31, 2008, the Group entered into interest rate option contracts to manage its interest rate risk. The total notional amount of such instruments was HK\$15 million and the carrying amount of such instruments representing the fair value was nil.

30 SHARE CAPITAL

	2009		2008	
	Number of shares	Nominal value HK\$ million	Number of shares	Nominal value HK\$ million
Authorized:				
Ordinary shares of HK\$0.25 each				
Beginning and end of year	10,000,000,000	2,500	10,000,000,000	2,500
Issued and fully paid:				
Ordinary shares of HK\$0.25 each				
Beginning of year	6,772,294,654	1,693	6,778,627,153	1,695
Exercise of employee share options (<i>note a</i>)	–	–	3,667,501	1
Repurchase of shares (<i>note b</i>)	–	–	(10,000,000)	(3)
End of year	6,772,294,654	1,693	6,772,294,654	1,693

a. During the year ended December 31, 2008, 3,667,501 employee share options were exercised by the eligible option holders at their respective subscription prices for a total cash consideration of HK\$16,259,067 resulting in the issue of an aggregate of 3,667,501 new ordinary shares of the Company of HK\$0.25 each, details of which are set out in note 32(a)(iii).

b. On June 6, 2008, the Company repurchased a total of 10,000,000 ordinary shares on the Stock Exchange at a purchase price of HK\$4.84 per share at an aggregate consideration of HK\$48,400,000 (before transaction costs). The repurchased shares were cancelled prior to June 30, 2008 and accordingly the issued share capital of the Company was reduced by the nominal value of these shares.

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, 2009 and was prepared by Mr Aaron Wong of Watson Wyatt Hong Kong Limited (a Towers Watson Company), fellow of the Canadian Institute of Actuaries and also fellow of the 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 70% (2008: 58%) of the present value of the defined benefit obligations as at December 31, 2009.

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

In HK\$ million	The Group 2009	2008
Present value of the defined benefit obligations <i>(note iii)</i>	286	352
Fair value of scheme assets <i>(note iv)</i>	(201)	(204)
Unrecognized actuarial losses	85 (80)	148 (141)
Defined benefit liability in the consolidated balance sheet	5	7

No employer’s contributions are expected to be paid to the scheme in 2010.

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

	The Group 2009	2008
Equity securities	–	–
Cash or short-term fixed deposits	–	–
Other (insurance fund)	100%	100%
	100%	100%

As at December 31, 2009, the scheme assets do not include any ordinary shares issued by the Company (2008: Nil).

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31 EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

a. Defined benefit retirement schemes (continued)

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

In HK\$ million	The Group	
	2009	2008
Beginning of year	352	253
Benefits paid	(12)	(11)
Interest cost	4	8
Actuarial (gains)/ losses	(58)	102
End of year	286	352

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

In HK\$ million	The Group	
	2009	2008
Beginning of year	204	206
Benefits paid	(12)	(11)
Expected return on scheme assets	11	11
Actuarial losses	(2)	(2)
End of year	201	204

v. Expense/(Income) recognized in the consolidated income statement is as follows:

In HK\$ million	The Group	
	2009	2008
Interest cost	4	8
Expected return on scheme assets	(11)	(11)
Net actuarial losses recognized during the year	5	1
	(2)	(2)
The income is recognized in the following line item in the consolidated income statement: General and administrative expenses – retirement costs for other staff (note 9(a))	(2)	(2)
Actual return on scheme assets	9	9

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 2009	2008
Discount rate	2.6%	1.20%
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	2009	The Group		
		2008	2007	2006
Present value of the defined benefit obligations	286	352	253	237
Fair value of scheme assets	(201)	(204)	(206)	(208)
Deficit in the scheme	85	148	47	29
Experience losses/(gains) on scheme liabilities	8	(1)	3	2
Experience losses on scheme assets	2	2	2	4

b. Defined contribution retirement schemes

The Group also operates defined contribution schemes, including the Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The schemes are administered by independent trustees.

Under the defined contribution scheme, the employer is required to make contributions to the scheme at rates specified under the rules of the scheme. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the scheme vest immediately upon the completion of the service in the relevant service period.

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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

	2009		2008	
	Weighted average exercise price HK\$	Number of options	Weighted average exercise price HK\$	Number of options
Beginning of year	10.28	137,971,730	10.20	144,366,771
Exercised (note iii)	–	–	4.43	(3,667,501)
Cancelled/Lapsed (note iv)	7.02	(55,134,133)	14.25	(2,727,540)
End of year (note ii)	12.45	82,837,597	10.28	137,971,730
Exercisable at end of year	12.45	82,837,597	10.28	137,971,730

32 EQUITY COMPENSATION BENEFITS (CONTINUED)

a. Share option schemes of the Company (continued)

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

Date of grant	Vesting period	Exercise period	Exercise price HK\$	Number of options	
				2009	2008
August 17, 1999 to September 15, 1999	August 17, 2000 to August 17, 2004	August 17, 2000 to August 17, 2009	11.7800	–	13,192,793
October 25, 1999 to November 23, 1999	October 25, 2000 to October 25, 2004	October 25, 2000 to October 25, 2009	22.7600	–	1,529,600
February 8, 2000 to March 8, 2000	February 8, 2001 to February 8, 2003	February 8, 2001 to February 8, 2010	75.2400	86,700	86,700
August 26, 2000 to September 24, 2000	May 26, 2001 to May 26, 2005	May 26, 2001 to August 26, 2010	60.1200	6,461,600	6,461,600
October 27, 2000 to November 25, 2000	March 15, 2001 to March 15, 2005	March 15, 2001 to October 27, 2010	24.3600	7,554,026	8,159,626
January 22, 2001 to February 20, 2001	January 22, 2001 to January 22, 2005	January 22, 2001 to January 22, 2011	16.8400	10,655,759	10,932,439
February 8, 2001	February 8, 2002 to February 8, 2004	February 8, 2002 to February 8, 2011	18.7600	86,700	86,700
April 17, 2001 to May 16, 2001	May 26, 2001 to May 26, 2005	May 26, 2001 to April 17, 2011	10.3000	1,047,640	1,050,920
July 16, 2001 to September 15, 2001	July 16, 2002 to July 16, 2004	July 16, 2002 to July 16, 2011	9.1600	194,600	210,280
April 11, 2002	April 11, 2003 to April 11, 2007	April 11, 2003 to April 11, 2012	7.9150	86,700	86,700
August 1, 2002	August 1, 2003 to August 1, 2005	August 1, 2003 to July 31, 2012	8.0600	200,000	200,000
November 13, 2002	November 13, 2003 to November 13, 2005	November 13, 2003 to November 12, 2012	6.1500	5,860,000	6,120,000
July 25, 2003	July 25, 2004 to July 25, 2006	July 25, 2004 to July 23, 2013	4.3500	50,596,872	51,455,872
September 16, 2003	September 16, 2004 to September 16, 2006	September 16, 2004 to September 14, 2013	4.9000	7,000	7,000
February 8, 2005	February 8, 2006 to February 8, 2007	February 8, 2006 to February 7, 2009	4.4750	–	38,391,500
				82,837,597	137,971,730

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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	2009		2008	
	Weighted average remaining contractual life (years)	Number of options	Weighted average remaining contractual life (years)	Number of options
HK\$ 4.01 to 5.04	3.56	50,603,872	2.65	89,854,372
5.05 to 7.54	6.15	5,860,000	3.87	6,120,000
7.55 to 11.29	1.56	1,528,940	2.55	1,547,900
11.30 to 16.79	–	–	0.63	13,192,793
16.80 to 25.04	0.96	18,296,485	1.87	20,708,365
55.05 to 70.04	0.65	6,461,600	1.65	6,461,600
70.05 to 85.00	0.10	86,700	1.10	86,700
		82,837,597		137,971,730

iii. Details of share options exercised during the year

Exercise date	Exercise price HK\$	Market value per share at exercise date HK\$	2009		2008	
			Proceeds received HK\$	Number of options	Proceeds received HK\$	Number of options
January 8, 2008 to September 12, 2008	4.3500	4.40 to 5.16	–	–	5,324,404	1,224,001
February 4, 2008 to September 10, 2008	4.4750	4.50 to 5.16	–	–	10,934,663	2,443,500
			–	–	16,259,067	3,667,501

The weighted average share price at the date of exercise for share options exercised during the year ended December 31, 2008 was HK\$4.95.

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

Exercise period	Exercise price HK\$	Number of options	
		2009	2008
August 17, 2000 to August 17, 2009	11.7800	13,192,793	376,800
October 25, 2000 to October 25, 2009	22.7600	1,529,600	194,400
May 26, 2001 to August 26, 2010	60.1200	–	88,000
March 15, 2001 to October 27, 2010	24.3600	605,600	583,280
January 22, 2001 to January 22, 2011	16.8400	276,680	238,600
May 26, 2001 to April 17, 2011	10.3000	3,280	17,920
July 16, 2002 to July 16, 2011	9.1600	15,680	26,040
November 13, 2003 to November 12, 2012	6.1500	260,000	380,000
July 25, 2004 to July 23, 2013	4.3500	859,000	232,000
September 16, 2004 to September 14, 2013	4.9000	–	150,000
February 8, 2006 to February 7, 2009	4.4750	38,391,500	440,500
		55,134,133	2,727,540

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	
	2009	2008
Beginning and end of year	2,519,109	2,519,109

c. Share option schemes of PCPD

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

Under the 2005 PCPD Scheme, the board of directors of PCPD may, at its discretion, grant share options to any eligible person to subscribe for shares in PCPD subject to the terms and conditions stipulated in the 2005 PCPD Scheme. The exercise price of the options under the 2005 PCPD Scheme is determined by the board of directors of PCPD at its absolute discretion but in any event shall not be less than the highest of (i) the closing price of the shares of PCPD as stated in the daily quotations sheet of the Stock Exchange on the date of grant; (ii) the average closing price of the shares of PCPD as stated in the daily quotations sheet of the Stock Exchange for the five days last preceding the date of grant on which days it has been possible to trade shares on the Stock Exchange; and (iii) the nominal value of the share of PCPD on the date of grant. The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2005 PCPD Scheme and other share option schemes of PCPD must not exceed 30% of the shares in issue from time to time. In addition, the maximum number of shares of PCPD in respect of which options may be granted under the 2005 PCPD Scheme shall not (when aggregated with any shares subject to any grants made after May 23, 2005 pursuant to any other share option schemes of PCPD) exceed 10% of the issued share capital of PCPD on May 23, 2005 (or some other date if renewal of this limit is approved by shareholders).

No share options have been granted under the 2005 PCPD Scheme during the years ended December 31, 2009 and 2008 and no share options were outstanding at December 31, 2009 under such scheme.

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December 31, 2009

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32 EQUITY COMPENSATION BENEFITS (CONTINUED)

c. Share option schemes of PCPD (continued)

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

	2009	2008
	Weighted average exercise price HK\$	Number of options
Beginning and end of year (note ii)	2.375	5,000,000
Exercisable at end of year	2.375	5,000,000

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

Date of grant	Vesting period	Exercise period	Exercise price HK\$	Number of options	
				2009	2008
December 20, 2004	December 20, 2004	December 20, 2004 to December 19, 2014	2.375	5,000,000	5,000,000
				5,000,000	5,000,000

The options outstanding at December 31, 2009 had a weighted average remaining contractual life of 5 years (2008: 6 years).

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

33 (DEFICIT)/RESERVES

In HK\$ million

	2009									
	Share premium	Special capital reserve	Capital redemption reserve	Treasury stock	Employee share-based compensation reserve	Currency translation reserve	Hedging reserve	Available- for-sale financial assets reserve	(Deficit)/ Retained profits	Total
THE GROUP										
At January 1, 2009	7,989	21,205	3	(18)	137	369	437	(15)	(30,065)	42
Special dividend declared and paid during the year	-	(8,804)	-	-	-	-	-	-	-	(8,804)
Reclassification due to expiry of share options	-	-	-	-	(41)	-	-	-	41	-
Total comprehensive income for the year	-	-	-	-	-	208	(171)	81	1,506	1,624
At December 31, 2009	7,989	12,401	3	(18)	96	577	266	66	(28,518)	(7,138)
THE COMPANY										
At January 1, 2009	7,989	21,205	3	-	136	-	-	-	6,379	35,712
Special dividend declared and paid during the year	-	(8,804)	-	-	-	-	-	-	-	(8,804)
Reclassification due to expiry of share options	-	-	-	-	(41)	-	-	-	41	-
Total comprehensive income for the year	-	-	-	-	-	-	-	-	22	22
At December 31, 2009	7,989	12,401	3	-	95	-	-	-	6,442	26,930

33 (DEFICIT)/RESERVES (CONTINUED)

In HK\$ million	2008									
	Share premium	Special capital reserve	Capital redemption reserve	Treasury stock	Employee share-based compensation reserve	Currency translation reserve	Hedging reserve	Available-for-sale financial assets reserve	(Deficit)/Retained profits	Total
THE GROUP										
At January 1, 2008	7,968	21,254	-	(18)	143	327	115	16	(29,948)	(143)
Repurchase of shares	-	(49)	3	-	-	-	-	-	-	(46)
Exercise of employee share options	15	-	-	-	-	-	-	-	-	15
Premium arising from exercise of employee share options	6	-	-	-	(6)	-	-	-	-	-
Dividend paid in respect of the previous year	-	-	-	-	-	-	-	-	(915)	(915)
Dividend declared and paid in respect of the current year	-	-	-	-	-	-	-	-	(474)	(474)
Total comprehensive income for the year	-	-	-	-	-	42	322	(31)	1,272	1,605
At December 31, 2008	7,989	21,205	3	(18)	137	369	437	(15)	(30,065)	42
THE COMPANY										
At January 1, 2008	7,968	21,254	-	-	142	-	-	-	25,350	54,714
Repurchase of shares	-	(49)	3	-	-	-	-	-	-	(46)
Exercise of employee share options	15	-	-	-	-	-	-	-	-	15
Premium arising from exercise of employee share options	6	-	-	-	(6)	-	-	-	-	-
Dividend paid in respect of the previous year	-	-	-	-	-	-	-	-	(915)	(915)
Dividend declared and paid in respect of the current year	-	-	-	-	-	-	-	-	(474)	(474)
Total comprehensive expense for the year	-	-	-	-	-	-	-	-	(17,582)	(17,582)
At December 31, 2008	7,989	21,205	3	-	136	-	-	-	6,379	35,712

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, 2009, the total cash set aside was approximately HK\$52 million (2008: HK\$103 million) and was recorded under "Restricted cash" in the balance sheet of the Company (see note 26(b)). Accordingly, as at December 31, 2009, the Company had special capital reserves, which can be distributed as dividend in accordance with above, of HK\$12,401 million (2008: HK\$21,205 million). Inclusive of retained profits of HK\$6,442 million (2008: HK\$6,379 million), the Company has total distributable reserves of HK\$18,843 million (2008: HK\$27,584 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2009

(Amount expressed in Hong Kong dollars unless otherwise stated)

34 DEFERRED INCOME TAX

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

In HK\$ million	2009							Total
	Accelerated tax depreciation	Valuation adjustment resulting from acquisition of subsidiaries	Leasing partnership	Revaluation of properties	Tax losses	Others		
THE GROUP								
Beginning of year	430	302	49	(4)	(65)	(46)	666	
Charged/(Credited) to consolidated income statement (note 12(a))	527	(21)	(38)	(4)	65	21	550	
Exchange differences	-	-	-	-	-	(5)	(5)	
End of year	957	281	11	(8)	-	(30)	1,211	
In HK\$ million	2008							Total
	Accelerated tax depreciation	Valuation adjustment resulting from acquisition of subsidiaries	Leasing partnership	Revaluation of properties	Deferred installation revenue	Tax losses	Others	
THE GROUP								
Beginning of year	1,663	342	94	121	(46)	(205)	(35)	1,934
Charged/(Credited) to consolidated income statement (note 12(a))	(1,246)	(40)	(45)	(133)	46	140	(10)	(1,288)
Exchange differences	13	-	-	8	-	-	(1)	20
End of year	430	302	49	(4)	-	(65)	(46)	666
In HK\$ million	The Group						2009	2008
Net deferred income tax assets recognized in the consolidated balance sheet							(65)	(48)
Net deferred income tax liabilities recognized in the consolidated balance sheet							1,276	714
							1,211	666

b. During the year, deferred income tax assets of HK\$65 million have been reversed (2008: HK\$140 million had been reversed) for tax losses carry-forward to the extent that realization of the related tax benefit through utilization against future taxable profits is not probable. The Group has unutilized estimated tax losses for which no deferred income tax assets have been recognized of HK\$17,805 million (2008: HK\$16,620 million) to carry forward for deduction against future taxable income. Estimated tax losses of HK\$1,232 million (2008: HK\$1,293 million) and HK\$20 million (2008: HK\$88 million) will expire within 1–5 years and after 5 years from December 31, 2009 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, 2009, the Group had mobile carrier licence fee liabilities repayable as follows:

In HK\$ million	2009			The Group		
	Present value of the minimum annual fees	Interest expense relating to future periods	Total minimum annual fees	Present value of the minimum annual fees	Interest expense relating to future periods	Total minimum annual fees
Repayable within a period						
– not exceeding one year	85	9	94	76	8	84
– over one year, but not exceeding two years	85	19	104	77	17	94
– over two years, but not exceeding five years	243	120	363	225	111	336
– over five years	152	140	292	210	213	423
	565	288	853	588	349	937
Less: Amounts repayable within one year included under current liabilities	(85)	(9)	(94)	(76)	(8)	(84)
	480	279	759	512	341	853

36 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	
	2009	2008
The net investment in relation to these finance leases comprises:		
Lease payments receivable	–	91
Less: Current portion of lease payments receivable (included in “Prepayments, deposits and other current assets” in the consolidated balance sheet)	–	(91)
	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2009

(Amount expressed in Hong Kong dollars unless otherwise stated)

37 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

In HK\$ million	The Group	
	2009	2008
Profit before income tax	2,380	2,233
Adjustment for:		
Provision for inventory obsolescence	6	1
Interest income	(18)	(197)
Interest expense	1,366	1,341
Finance charges	119	132
Depreciation of property, plant and equipment	2,677	2,824
Net realized gains on disposal of available-for-sale financial assets	–	(60)
Net realized and unrealized fair value gains on derivative financial instruments	–	(28)
Net gain on cash flow hedging instruments transferred from equity	(42)	(30)
Fair value (gains)/losses on investment properties	(1)	396
Provision for impairment of investments	–	161
Gain on disposal of subsidiaries	(232)	–
Provision for impairment on interest in a jointly controlled company	–	31
Loss on disposal of a jointly controlled company	1	–
Impairment loss on an associate reversed	(1)	–
Losses on property, plant and equipment	61	103
(Reversal of provision)/Provision for rental guarantee	(40)	12
Loss on disposal of property, plant and equipment	–	19
Impairment loss on goodwill	96	12
Impairment loss for doubtful debts	351	275
Amortization of intangible assets	1,081	841
Amortization of land lease premium		
– interests in leasehold land	22	22
– properties under development	–	9
Share of results of associates and jointly controlled companies	55	(11)
Exchange losses	1	–
Decrease/(Increase) in operating assets		
– properties held for/under development/for sale	1,671	6,927
– inventories	18	(163)
– trade receivables	1,603	(1,883)
– prepayments, deposits and other current assets	(629)	(115)
– sales proceeds held in stakeholders' accounts	5,723	(4,569)
– restricted cash	(218)	(144)
– amounts due from related companies	30	(13)
– other non-current assets	(43)	79
(Decrease)/Increase in operating liabilities		
– trade payables, accruals and other payables and deferred income	(924)	810
– amount payable to the Government under the Cyberport Project Agreement	(5,343)	(743)
– gross amounts due to customers for contract work	(5)	(2)
– amounts due to related companies	(116)	46
– other long-term liabilities	(84)	(73)
– advances from customers	(456)	(1,210)
CASH GENERATED FROM OPERATIONS	9,109	7,033
Interest received	18	208
Income tax paid, net of tax refund		
– Hong Kong profits tax paid	(1,159)	(706)
– overseas profits tax paid	(28)	(73)
NET CASH GENERATED FROM OPERATING ACTIVITIES	7,940	6,462

37 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

b. Acquisition of subsidiaries

In HK\$ million	The Group	
	2009	2008
Net liabilities acquired:		
Property, plant and equipment	40	–
Intangible assets	3	–
Other non-current assets	6	–
Trade receivables, prepayments, deposits and other current assets	64	–
Restricted cash	10	–
Cash and cash equivalents	2	–
Trade payables, accruals and other payables	(58)	–
Short-term borrowings	(47)	–
Other long-term liabilities	(45)	–
Minority interests	(3)	–
	(28)	–
Goodwill on acquisition	191	–
Purchase consideration	163	–
Satisfied by:		
Cash	82	–
Acquisition-related contingent consideration payable	77	–
Direct costs in relation to the acquisition	4	–
	163	–
Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries:		
Purchase consideration settled in cash	(86)	–
Cash and cash equivalents of subsidiaries acquired	2	–
Net cash outflow in respect of acquisition of subsidiaries	(84)	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2009

(Amount expressed in Hong Kong dollars unless otherwise stated)

37 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

c. Disposal of subsidiaries

On October 5, 2009, the Group disposed the entire share capital of two subsidiaries to a third party. The net assets of these disposed subsidiaries at the date of disposal were as follows:

In HK\$ million	The Group	
	2009	2008
Net assets disposed of:		
Properties under development	672	–
Prepayments, deposits and other current assets	20	–
Cash and cash equivalents	71	–
Accruals, other payables and deferred income	(7)	–
Current income tax liabilities	(2)	–
	754	–
Consideration settled by cash	(913)	–
	(159)	–
Reclassification adjustments from currency translation reserve	(73)	–
	(232)	–
Gain on disposal of subsidiaries (note 7)		–
Analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:		
Consideration settled by cash	913	–
Cash and cash equivalents disposed of	(71)	–
Net cash inflow in respect of disposal of subsidiaries	842	–

d. Analysis of cash and cash equivalents

In HK\$ million	The Group		The Company	
	2009	2008	2009	2008
Cash and bank balances	9,070	10,111	145	5,941
Bank overdrafts	(20)	(4)	–	–
Restricted cash	(1,001)	(823)	(52)	(103)
Cash and cash equivalents as at December 31,	8,049	9,284	93	5,838

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, and benefits for other stakeholders, to support the Group's stability and growth; and to earn a margin commensurate with the level of business and market risks in the Group's operation.

The Group monitors capital by reviewing the level of capital that is at the disposal of the Group ("adjusted capital"), taking into consideration the future capital requirements of the Group, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. Adjusted capital comprises share capital, share premium, treasury stock, employee share-based compensation reserve, currency translation reserve, hedging reserve and available-for-sale financial assets reserve.

The adjusted capital at December 31, 2009 and 2008 was as follows:

In HK\$ million	The Group	
	2009	2008
Equity attributable to equity holders of the Company	(5,445)	1,735
Add back: Accumulated deficits	28,518	30,065
Adjusted Capital	23,073	31,800

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 trade receivables, amounts due from related companies, investments, interest receivable, lease payments receivable, over-the-counter derivative transactions and cash transactions entered into for risk management purposes. Management has policies in place and exposures to these credit risks are monitored on an ongoing basis.

Trade receivables in respect of properties sold are payable by the purchasers pursuant to the terms of the sales contracts. Other trade receivables have a normal credit period ranging up to 30 days from the date of invoice unless there is a separate mutual agreement on extension of the credit period. The Group maintains a well-defined credit policy and individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors who have overdue payable are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers. As at December 31, 2009, the Group does not have a significant exposure to any individual debtors or counterparties. As at December 31, 2008, the Group has a certain concentration of credit risk as 22% of the total trade receivables are due from three customers.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 26(e).

Amounts due from related companies and other receivables are continuously monitored by assessing the credit quality of the counterparty, taking into account its financial position, past experience and other factors. Where necessary, impairment loss is made for estimated irrecoverable amounts. As at December 31, 2009, the amounts due from related companies and other receivables are fully performing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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39 FINANCIAL INSTRUMENTS (CONTINUED)

a. Credit risk (continued)

Investments, derivative financial instruments, interest receivable, 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.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the consolidated balance sheet. Except for the guarantees given by the Group as disclosed in note 41, the Group does not provide any other guarantees which would expose the Group to credit risk.

b. Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with debt covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. Management believes there is no significant liquidity risk as the Group has sufficient committed facilities to fund its operations and debt servicing requirements.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

In HK\$ million

The Group
2009

	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years	Total contractual undiscounted cash flow	Carrying amount
Current liabilities						
Short-term borrowings	250	–	–	–	250	246
Trade payables	1,645	–	–	–	1,645	1,645
Accruals and other payables	4,441	–	–	–	4,441	4,441
Amount payable to the Government under the Cyberport Project Agreement	833	–	–	–	833	833
Mobile carrier licence fee liabilities	85	–	–	–	85	85
Amounts due to related companies	42	–	–	–	42	42
	7,296	–	–	–	7,296	7,292
Non-current liabilities						
Long-term borrowings	1,386	20,675	12,950	3,996	39,007	34,667
Mobile carrier licence fee liabilities	–	104	363	292	759	480
Other long-term liabilities	14	17	41	49	121	102
	1,400	20,796	13,354	4,337	39,887	35,249
Total	8,696	20,796	13,354	4,337	47,183	42,541

39 FINANCIAL INSTRUMENTS (CONTINUED)

b. Liquidity risk (continued)

In HK\$ million	The Group 2008					Total contractual undiscounted cash flow	Carrying amount
	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years			
Current liabilities							
Trade payables	1,700	–	–	–	–	1,700	1,700
Accruals and other payables	5,241	–	–	–	–	5,241	5,241
Amount payable to the Government under the Cyberport Project Agreement	4,981	–	–	–	–	4,981	4,981
Mobile carrier licence fee liabilities	84	–	–	–	–	84	76
Amounts due to related companies	585	–	–	–	–	585	585
Gross amounts due to customers for contract work	5	–	–	–	–	5	5
	12,596	–	–	–	–	12,596	12,588
Non-current liabilities							
Long-term borrowings	1,423	1,423	30,391	4,197	–	37,434	31,745
Amount payable to the Government under the Cyberport Project Agreement	–	1,195	–	–	–	1,195	1,195
Mobile carrier licence fee liabilities	–	94	336	423	–	853	512
Other long-term liabilities	11	53	35	58	–	157	139
	1,434	2,765	30,762	4,678	–	39,639	33,591
Total	14,030	2,765	30,762	4,678	–	52,235	46,179
In HK\$ million	The Company						
		2009			2008		
	Within 1 year or on demand	Total contractual undiscounted cash flow	Carrying amount	Within 1 year or on demand	Total contractual undiscounted cash flow	Carrying amount	
Current liabilities							
Short-term borrowings	201	201	200	–	–	–	
Accruals and other payables	6	6	6	27	27	27	

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 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, 2009 and 2008, all of the Group's long-term borrowings denominated in United States dollars were swapped into Hong Kong dollars by cross currency swap contracts. Given this, management does not expect that there will be any significant currency risk associated with the Group's borrowings. All cross currency swap contracts outstanding as at December 31, 2009 with an aggregate notional contract amount of US\$2,000 million (approximately HK\$15,510 million) were designated as cash flow hedges against foreign exchange rate risk, while certain cross currency swap contracts with notional contract amount of US\$2,000 million (approximately HK\$15,591 million) were designated as cash flow hedges during 2008.

In respect of trade receivables and payables held in currencies other than the functional currency of the operations to which they relate, the Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

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 financial assets or liabilities denominated in foreign currencies.

In HK\$ million

	The Group			
	2009		2008	
	United States Dollars	Chinese Renminbi	United States Dollars	Chinese Renminbi
Trade receivables	615	278	729	216
Amounts due from related companies	6	–	6	–
Cash and cash equivalents	1,633	630	5,181	287
Trade payables	(608)	(127)	(463)	(206)
Amounts due to related companies	(37)	–	(43)	–
Bank borrowings	(46)	–	–	–
Long-term borrowings	(15,446)	(11)	(15,418)	–
Gross exposure arising from recognized financial (liabilities)/assets	(13,883)	770	(10,008)	297
Net financial liabilities denominated in respective entities' functional currencies	–	(772)	(25)	(269)
Notional amounts of cross currency swap contracts designated as cash flow hedges	15,510	–	15,591	–
Overall net exposure	1,627	(2)	5,558	28

As at December 31, 2009, 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\$14 million (2008: HK\$46 million), mainly as a result of foreign exchange gains/losses on translation of United States dollar denominated recognized assets and liabilities which are not hedged by hedging instruments. Meanwhile, the hedging reserve as at December 31, 2009 would have been increased/decreased by approximately HK\$155 million (2008: 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, 2009, if Hong Kong dollar had weakened/strengthened by 5% against the Chinese Renminbi, with all other variables held constant, there would be no material impact on the Group's profit after tax for the year (2008: the Group's profit after tax for the year would have been increased/decreased by approximately HK\$1 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 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2009

(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. In addition, from time to time, the Group drew under long-term revolving credit and term 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 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 %

	2009		The Group		2008
	Effective interest rate %			Effective interest rate %	
Net fixed rate borrowings:					
Long term borrowings with cash flow hedging instruments	6.84	15,446		6.84	15,418
		15,446			15,418
Variable rate borrowings:					
Bank borrowings	1.70	19,467		2.21	16,327
Total borrowings		34,913			31,745

At December 31, 2009, if interest rates on Hong Kong dollar denominated borrowings had been increased/decreased by 10 basis points, with all other variables held constant, the Group's profit after tax for the year would have been decreased/increased by approximately HK\$16 million (2008: HK\$1 million), mainly as a result of higher/lower interest expense on floating rate borrowings.

The sensitivity analysis above has been determined assuming that the change in interest rate had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for the Group's floating rate borrowings in existence at that date. The 10 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2008.

iii. Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale financial assets (see note 25). Other than unquoted equity securities held for strategic purposes, all of these investments are listed on a recognized stock exchange.

To manage its equity price risk, the portfolio is diversified in accordance with the limits set by the Group. Given the insignificant portfolio of listed equity securities held by the Group, management believes that the Group's equity price risk is minimal.

Performance of the Group's unquoted investments held for long term strategic purposes is assessed at least bi-annually against performance of their business as well as similar listed entities, based on the limited information available to the Group, together with an assessment of their relevance to the Group's long term strategic plans.

39 FINANCIAL INSTRUMENTS (CONTINUED)

d. Fair values

All financial instruments are carried at amounts not materially different from their fair values as at December 31, 2009 and 2008 except as follows:

In HK\$ million	2009		2008	
	Carrying amount	Fair value	Carrying amount	Fair value
THE GROUP				
Short-term borrowings	(246)	(246)	–	–
Long-term borrowings	(34,667)	(35,496)	(31,745)	(30,118)

e. Estimation of fair values

Effective from January 1, 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

The following table presents the Group's assets that are measured at fair value at December 31, 2009:

In HK\$ million	The Group			Total
	Level 1	Level 2	Level 3	
Assets				
Available-for-sale financial assets				
– Listed equity securities	59	–	–	59
– Unlisted equity securities	–	–	266	266
Derivative financial instruments	–	108	–	108
Total assets	59	108	266	433

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2009

(Amount expressed in Hong Kong dollars unless otherwise stated)

39 FINANCIAL INSTRUMENTS (CONTINUED)

e. Estimation of fair values (continued)

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of cross currency swap contracts is calculated as the present value of the estimated future cash flows discounted by observable interest rates.
- For unlisted securities or financial assets without an active market, the Group establish the fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same, and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs. If none of the valuation techniques results in a reasonable estimate on the fair value, the investment is stated in the balance sheet at cost less impairment losses.

The estimated fair value of level 3 financial assets as at December 31, 2009 was HK\$266 million (2008: HK\$227 million). During the year ended December 31, 2009, the Group recognized unrealized fair value gains of HK\$39 million in respect of these financial assets and there were no additions or disposals of level 3 financial assets during the year.

40 COMMITMENTS

a. Capital

In HK\$ million	The Group	
	2009	2008
Authorized and contracted for	439	871
Authorized but not contracted for	865	924
	1,304	1,795

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

In HK\$ million	The Group	
	2009	2008
Investments	104	104
Investment properties	26	31
Property development for Cyberport project (note i)	–	89
Property development for other projects	–	120
Acquisition of property, plant and equipment	1,174	1,449
Others	–	2
	1,304	1,795

- 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.

40 COMMITMENTS (CONTINUED)

b. Operating leases

As at December 31, 2009, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

Land and buildings

In HK\$ million	The Group 2009	2008
Within 1 year	620	561
After 1 year but within 5 years	922	1,235
After 5 years	386	453
	1,928	2,249

Network capacity and equipment

In HK\$ million	The Group 2009	2008
Within 1 year	210	133
After 1 year but within 5 years	241	113
After 5 years	–	14
	451	260

Majority of the leases typically run for a period of 1 to 13 years. None of the leases include contingent rentals.

c. Others

As at December 31, 2009, the Group has other outstanding commitments as follows:

In HK\$ million	The Group 2009	2008
Purchase of rights to broadcast certain TV content	1,191	2,018
Purchase commitment on telecommunications services	–	9
Operating expenditure commitment	272	289
	1,463	2,316

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2009

(Amount expressed in Hong Kong dollars unless otherwise stated)

41 CONTINGENT LIABILITIES

In HK\$ million	The Group		The Company	
	2009	2008	2009	2008
Performance guarantee	393	923	5	5
Tender guarantee	13	8	–	–
Guarantee in lieu of cash deposit	4	2	2	–
Employee compensation	6	6	6	6
Guarantee indemnity	11	11	–	–
	427	950	13	11

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.

42 BANKING FACILITIES

Aggregate banking facilities as at December 31, 2009 were HK\$27,885 million (2008: HK\$24,220 million) of which the unused facilities amounted to HK\$8,222 million (2008: HK\$7,620 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	
	2009	2008
Property, plant and equipment	77	–
Trade receivables	49	–
Investment properties	3,787	–
Bank deposit	–	1
	3,913	1

43 BUSINESS COMBINATIONS

a. Acquisition of IP BPO Holdings Pte. Ltd.

On August 13, 2009, the Group acquired 100 per cent of the share capital of IP BPO Holdings Pte. Ltd., a company incorporated in Singapore. IP BPO Holdings Pte. Ltd. and its subsidiaries provide call center services. The Group made an initial payment for acquisition totaling HK\$78 million in cash and may potentially have to make an additional payments totaling up to HK\$94 million in cash if the acquired businesses achieve certain financial milestones within a specified period. The fair value of the contingent consideration is estimated at HK\$77 million and has been included in the purchase price of IP BPO Holdings Pte. Ltd.

The acquired business contributed a revenue of HK\$150 million and a net profit of HK\$2 million to the Group for the period from August 14, 2009 to December 31, 2009. If the acquisition had occurred on January 1, 2009, the acquired business's revenue would have been HK\$377 million, and loss for the year would have been HK\$2 million.

The Group is required to recognize the acquirees' identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the acquisition date. As of the date of these financial statements, the purchase price allocation process is ongoing and has yet to be finalized. In the preparation of these consolidated financial statements, the Group has used the historical carrying values of the acquired assets and liabilities in their predecessor businesses with the excess of the cost of acquisition over these carrying values being recorded as goodwill (note 20). This allocation of the purchase price allocation to the acquired assets and liabilities is provisional and will be adjusted in the Group's 2010 consolidated financial statements when the purchase price allocation is finalized. Had the purchase price allocation been completed, the fair values of the assets and liabilities acquired and the amount of goodwill to be recorded could be materially different from the amounts recognized. The values of assets and liabilities acquired and the resulting goodwill will be adjusted retrospectively upon the completion of the purchase price allocation in 2010.

Details of net liabilities acquired and goodwill in respect of acquisition of the call center operations were as follows:

In HK\$ million	2009
Purchase consideration in cash	78
Contingent consideration payable	77
Direct costs in relation to the acquisition	4
Purchase consideration	159
Less: Carrying amount of net liabilities acquired	29
Goodwill on acquisition (note 20)	188

The goodwill is attributable to future profit generated from the call center operations.

The carrying amounts of assets and liabilities of the call center operations at the acquisition date were as follows:

In HK\$ million	Carrying amount
Property, plant and equipment	40
Intangible assets	3
Other non-current assets	5
Trade receivables, prepayments, deposits and other current assets	61
Cash and cash equivalents	1
Trade payables, accruals and other payables	(44)
Short-term borrowings	(47)
Other long-term liabilities	(45)
Net liabilities	(26)
Minority interests	(3)
Net liabilities acquired	(29)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2009

(Amount expressed in Hong Kong dollars unless otherwise stated)

43 BUSINESS COMBINATIONS (CONTINUED)

a. Acquisition of IP BPO Holdings Pte. Ltd. (continued)

In HK\$ million	2009
Purchase consideration settled in cash	(82)
Cash and cash equivalents of call center operations acquired	1
Cash outflow on acquisition of call center operations (note 37(b))	(81)

b. Acquisition of Kabushiki Kaisha Niseko Management Service

On November 30, 2009, the Group acquired 100 per cent of the share capital of Kabushiki Kaisha Niseko Management Service, a company incorporated in Japan, which provides property management and travel agency services operations in Hokkaido, Japan. The acquired business contributed a revenue of HK\$1 million and no net gain to the Group for the period from November 30, 2009 to December 31, 2009.

Details of net assets acquired and goodwill were as follows:

In HK\$ million	2009
Purchase consideration in cash for property management and travel agency services operations of Kabushiki Kaisha Niseko Management Service	4
Less: Fair value of net assets acquired	(1)
Goodwill on acquisition (note 20)	3

The goodwill is attributable to future profit generated from the property management and travel agency services operations of PCPD.

The assets and liabilities of the property management and travel agency services operations as at the acquisition date were as follows:

In HK\$ million	Fair value	Carrying amount
Other non-current assets	1	1
Restricted cash	10	10
Trade receivables, prepayments, deposits and other current assets	3	3
Cash and cash equivalents	1	1
Trade payables, accruals, other payables and deferred income	(14)	(14)
Net assets acquired	1	1

In HK\$ million	2009
Purchase consideration settled in cash	(4)
Cash and cash equivalents of property management and travel agency services operations acquired	1
Cash outflow on acquisition of property management and travel agency services operations (note 37(b))	(3)

There were no acquisitions for the year ended December 31, 2008.

44 POSSIBLE IMPACT OF AMENDMENTS, NEW OR REVISED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2009

Up to the date of approval of these financial statements, the HKICPA has issued the following amendments, new or revised standards and interpretations which are not yet effective for the accounting period ended December 31, 2009 and which have not been adopted in these financial statements:

		Effective for accounting periods beginning on or after
HKFRS 1 (Revised)	First Time Adoption of HKFRS	July 1, 2009
HKFRS 3 (Revised)	Business Combinations	July 1, 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements	July 1, 2009
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement	July 1, 2009
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners	July 1, 2009
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments	July 1, 2010
HKFRS 1 (Amendment)	First Time Adoption of HKFRS	January 1, 2010
HKFRS 2 (Amendment)	Share-based Payment	January 1, 2010
HKAS 32 (Amendment)	Financial Instruments: Presentation	January 1, 2010
HKAS 24 (Revised)	Related Party Disclosures	January 1, 2011
HKFRS 9	Financial Instruments	January 1, 2013

Apart from the above, a number of improvements and minor amendments to HKFRSs have also been issued by the HKICPA but they are not yet effective for the accounting period ended December 31, 2009 and have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations would be in the period of initial application, but not yet in a position to state whether these amendments, new or revised standards and new interpretations would have a significant impact on the Group's results of operations and financial position.

FIVE YEAR FINANCIAL SUMMARY

For the year ended December 31, 2009

Results

In HK\$ million	2009	2008	2007	2006	2005
TURNOVER BY PRINCIPAL ACTIVITY					
Telecommunications Services	16,292	17,465	16,636	15,374	15,048
TV & Content	2,350	2,239	1,703	1,002	696
Mobile	1,670	1,744	1,468	1,236	598
PCCW Solutions	1,844	1,866	1,795	1,652	1,579
Pacific Century Premium Developments Limited	4,222	9,943	3,134	7,263	5,127
Other Businesses	61	86	249	328	346
Elimination of inter-segment sales	(1,362)	(1,392)	(1,270)	(1,218)	(895)
	25,077	31,951	23,715	25,637	22,499
Cost of sales	(12,254)	(17,850)	(10,538)	(12,973)	(10,752)
General and administrative expenses	(9,029)	(10,005)	(9,144)	(8,904)	(7,767)
Other gains/(losses), net	168	(464)	(3)	42	626
Losses on property, plant and equipment	(61)	(103)	(7)	(11)	(52)
Interest income	18	197	429	732	533
Finance costs	(1,485)	(1,473)	(1,658)	(2,008)	(2,234)
Share of results of equity accounted entities	(55)	11	13	37	121
Impairment losses reversed/(recognized) on interests in associates and jointly controlled companies	1	(31)	–	–	(4)
Profit before income tax	2,380	2,233	2,807	2,552	2,970
Income tax	(585)	(711)	(970)	(920)	(1,103)
Profit for the year	1,795	1,522	1,837	1,632	1,867
Attributable to:					
Equity holders of the Company	1,506	1,272	1,503	1,252	1,595
Minority interests	289	250	334	380	272

Assets and Liabilities

As at December 31, in HK\$ million	2009	2008	2007	2006	2005
Total non-current assets	27,934	29,535	29,797	29,711	27,574
Total current assets	17,049	27,070	21,560	19,715	25,709
Total current liabilities	(9,827)	(16,723)	(26,145)	(25,657)	(22,360)
Net current assets/(liabilities)	7,222	10,347	(4,585)	(5,942)	3,349
Total assets less current liabilities	35,156	39,882	25,212	23,769	30,923
Total non-current liabilities	(37,181)	(34,982)	(20,861)	(20,870)	(28,191)
Net (liabilities)/assets	(2,025)	4,900	4,351	2,899	2,732

Distributable Reserves of the Company

As at December 31, in HK\$ million	2009	2008	2007	2006	2005
Distributable reserves of the Company	18,843	27,584	46,604	25,475	19,419*

* Distributable reserve of HK\$19,419 million was subject to an undertaking by the Company in connection with the Company's Capital Reduction in 2004. Please refer to note 34(a)(iii) of the Company's 2005 annual report for details.

SCHEDULE OF PRINCIPAL PROPERTIES

Year 2009

Property	Classification	Status	Existing Use	Gross Site Area (sq.m.)	Gross Floor Area (sq.m.)	Lease Term*	Group's Interest
The PRC							
Pacific Century Place, No.2A Gong Ti Bei Lu, Chaoyang District, Beijing, the PRC							
Tower A (except part of 6th, 8th, 10th and 13th Floor for own use)	Investment properties	Existing	Office for lease	29,351	39,901	Medium	62%
Tower B	Investment properties	Existing	Office for lease		20,104	Medium	62%
Tower C	Investment properties	Existing	Residential		21,496	Long	62%
Tower D	Investment properties	Existing	Residential		10,459	Long	62%
Podium	Investment properties	Existing	For lease		75,431	Medium	62%
Car parking spaces	Investment properties	Existing	For lease		786 spaces	Medium	62%
Hong Kong							
Part of 18th Floor of Paramount Building, No.12 Ka Yip Street, Chai Wan, Hong Kong	Investment properties	Existing	For lease	Not applicable	603	Medium	100%

* Lease term:

Long term: Lease not less than 50 years

Medium term: Lease less than 50 years but not less than 10 years

INVESTOR RELATIONS

FINANCIAL CALENDAR

Announcement of 2009 Annual Results	March 9, 2010
Closure of register of members	May 14 – 19, 2010 (both days inclusive)
Payment of 2009 final dividend	On or around May 27, 2010
2010 Annual General Meeting (“AGM”)	May 19, 2010

DIRECTORS

The directors of the Company as at the date of the announcement of the 2009 Annual Results are:

Executive Directors:

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

Non-Executive Directors:

Sir David Ford, KBE, LVO
Lu Yimin
Zuo Xunsheng (*Deputy Chairman*)
Li Fushen

Independent Non-Executive Directors:

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

ANNUAL REPORT 2009

This Annual Report 2009 in both English and Chinese is now available in printed form and on the websites of the Company (www.pccw.com) and Hong Kong Exchanges and Clearing Limited (www.hkex.com.hk).

Shareholders who:

- A) received the Annual Report 2009 by electronic means may request a printed copy, or
- B) received the Annual Report 2009 in either English or Chinese may request a printed copy of the other language version

by writing to the Company c/o the Company's Share Registrars at:

Computershare Hong Kong Investor Services Limited
Investor Communications Centre
17M Floor, Hopewell Centre
183 Queen's Road East, Wan Chai, Hong Kong
Fax: +852 2529 6087/+852 2865 0990
Email: hkinf00008@computershare.com.hk

Shareholders who have chosen to receive the Annual Report 2009 by electronic means through the Company's website and who, for any reason, have difficulty in receiving or gaining access to the Annual Report 2009 will promptly, upon request in writing or by email to the Company's Share Registrars – Computershare Hong Kong Investor Services Limited, be sent the Annual Report 2009 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 reasonable prior notice in writing or by email to the Company's Share Registrars.

LISTINGS

The Company's shares are listed on The Stock Exchange of Hong Kong Limited and traded in the form of American Depositary Receipts (“ADRs”) on the Pink OTC Markets 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 Depository Bank in New York (including beneficial owners) can vote by proxy at the AGM by completing a voting instruction card provided by the Depository Bank. The Depository will tabulate and transmit the votes to the Company before the AGM.

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

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

STOCK CODES

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

SHARE INFORMATION

Board lot:	1,000 shares
Issued shares as at December 31, 2009:	6,772,294,654 shares

DIVIDEND

Final dividend per share for the year ended December 31, 2009:
13.3 HK cents per ordinary share

REGISTRARS

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Rooms 1712-1716, 17th Floor, Hopewell Centre
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Email: hkinf@computershare.com.hk

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PCCW shares are listed on The Stock Exchange of Hong Kong Limited (SEHK: 0008)
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