PCCW CAPITAL NO. 4 LIMITED

(incorporated in the British Virgin Islands with limited liability)

U.S.$300,000,000
5.75% GUARANTEED NOTES DUE 2022

irrevocably and unconditionally guaranteed by

PCCW LIMITED

(incorporated in Hong Kong with limited liability)

ISSUE PRICE: 98.775%

The 5.75% Guaranteed Notes due 2022 (the "Notes") in the aggregate principal amount of U.S.$300,000,000 to be issued by PCCW Capital No. 4 Limited (the "Issuer") will be irrevocably and unconditionally guaranteed (the "Guarantee") by PCCW Limited (the "Guarantor").

The Notes will bear interest from 17 April 2012 at the rate set forth above, payable semi-annually in arrear on 17 April and 17 October of each year (commencing on 17 October 2012). The Notes mature on 17 April 2022. The Notes are not redeemable prior to maturity, except that the Notes may be redeemed, in whole but not in part, in the event of certain developments affecting taxation at 100% of their principal amount plus accrued interest and in the event of a Change of Control (as defined in the Terms and Conditions of the Notes) at 101% of their principal amount plus accrued interest, as described in this Offering Circular.

The Notes will constitute direct, general, unconditional, unsubordinated and (subject to the negative pledge set out in the Terms and Conditions of the Notes) unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application. The Guarantee will constitute direct, general, unconditional, unsubordinated and (subject to the negative pledge set out in the Terms and Conditions of the Notes) unsecured obligations of the Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

Approval in-principle has been received for the listing of the Notes on the Singapore Exchange Securities Trading Limited (the "SGX-ST"). The SGX-ST assumes no responsibility for the correctness of any statements made or opinions expressed or reports contained in this Offering Circular. Admission of the Notes to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Issuer, the Guarantor or the Notes.

Investing in the Notes involves risks. Please see "Risk Factors" beginning on page 10.

The Notes and the Guarantee have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") and, subject to certain exceptions, may not be offered or sold within the U.S. or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act). For a description of these and certain further restrictions on offers and sales of the Notes and the distribution of this Offering Circular, see "Subscription and Sale".

The Notes will be represented by beneficial interests in a global certificate (the "Global Certificate") in registered form, without interest coupons attached, which will be registered in the name of a nominee of, and shall be deposited on or about 17 April 2012 (the "Issue Date") with a common depositary for, Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream").

Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, certificates for Notes will not be issued in exchange for beneficial interests in the Global Certificate.

Joint Bookrunners and Joint Lead Managers

Morgan Stanley **The Royal Bank of Scotland**

12 April 2012

The Issuer and the Guarantor are responsible for the accuracy and completeness of the information in this Offering Circular and the Issuer and the Guarantor represent and warrant that the information in this Offering Circular is in all material respects in accordance with the facts and does not omit anything likely to affect the accuracy and completeness of such information in any material respect, provided that for the information provided by third-party sources contained herein, the Issuer and the Guarantor accept responsibility for accurately reproducing such information but accept no further or other responsibility in respect of such information.

Investors should only rely on the information contained in this Offering Circular. The information contained in this Offering Circular is given only as at the date of this Offering Circular. The business, financial condition, results of operations and prospects of the Issuer and the Guarantor may have changed since that date.

This Offering Circular is based on information provided by the Issuer and the Guarantor and by other sources that they believe are reliable. No assurance can be given that such information from other sources is accurate or complete.

THIS OFFERING CIRCULAR DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, ANY NOTE OFFERED HEREBY BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH AN OFFER OR SOLICITATION. NEITHER THE DELIVERY OF THIS OFFERING CIRCULAR NOR ANY SALE MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES IMPLY THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE ISSUER, THE GUARANTOR OR THEIR RESPECTIVE SUBSIDIARIES OR THAT THE INFORMATION SET FORTH HEREIN IS CORRECT AS AT ANY DATE SUBSEQUENT TO THE DATE HEREOF.

The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor, Morgan Stanley & Co. International plc and The Royal Bank of Scotland plc (the "Joint Lead Managers") to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Notes or the distribution of this Offering Circular in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Notes, and the circulation of documents relating thereto, in certain jurisdictions including the United States, the United Kingdom, the Netherlands, Singapore, Japan, Hong Kong and the British Virgin Islands, and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Notes and distribution of this Offering Circular, see "Subscription and Sale".

This Offering Circular has been prepared by the Issuer and the Guarantor solely for use in connection with the offering of the Notes related thereto and described herein. The Issuer, the Guarantor and the Joint Lead Managers reserve the right to reject any offer to purchase the Notes offered hereby in the primary market, in whole or in part, for any reason.

Each person receiving this Offering Circular acknowledges that (i) such person has been afforded an opportunity to request from the Issuer and the Guarantor and to review, and has received, all additional information considered by it to be necessary to verify the accuracy of, or to supplement, the information contained herein, (ii) such person has not relied on the Joint Lead Managers or any person affiliated with the Joint Lead Managers in connection with any investigation of the accuracy of such information or its investment decision, and (iii) no person has been authorised to give any information or to make any representation concerning the Issuer, the Guarantor or the Notes (other than as contained herein and information given by duly authorised officers and employees of the Issuer and the Guarantor in connection with investors' examination of the Issuer and the Guarantor and the terms of the offering of the Notes) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Guarantor, the Joint Lead Managers, The Bank of New York Mellon (the "Trustee") or the Agents (as defined in the terms and conditions of the Notes).

In making an investment decision, investors must rely on their own examination of the Issuer and the Guarantor and the terms of the Offering, including the merits and risks involved. The Notes have not been recommended by the Issuer, the Guarantor, the Joint Lead Managers, the Trustee or the Agents.

No representation or warranty, expressed or implied, is made by the Joint Lead Managers, the Trustee or the Agents as to the accuracy or completeness of the information set forth herein, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise or representation, whether as to the past or the future. The Joint Lead Managers have not independently verified any of such information and assumes no responsibility for its accuracy or completeness. To the fullest extent permitted by law, none of the Joint Lead Managers, the Trustee or any Agent accepts any responsibility for the contents of this Offering Circular. Each of the Joint Lead Managers, the Trustee and the Agents accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular.

IN CONNECTION WITH THIS OFFERING, THE ROYAL BANK OF SCOTLAND PLC (THE "STABILISING MANAGER") OR ANY PERSON ACTING FOR THE STABILISING MANAGER MAY, SUBJECT TO ALL APPLICABLE LAWS, OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD AFTER THE ISSUE DATE. HOWEVER, THERE IS NO OBLIGATION ON THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) TO DO THIS. SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME, AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD.

SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

Certain statements under "Risk Factors", "Business" and elsewhere in this Offering Circular constitute "forward-looking statements". The words including "believe", "expect", "plan", "anticipate", "schedule", "estimate" and similar words or expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, but without limitation, those regarding the financial position, business strategy, prospects, capital expenditure and investment plans of the Group and the plans and objectives of the Group's management for its future operations (including development plans and objectives relating to the Group's operations), are forward looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results or performance of the Group to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. Each of the Issuer and the Guarantor expressly disclaims any obligation or undertaking to release any updates or revisions to any forward-looking statements contained herein to reflect any change in the Group's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statements were based. This Offering Circular discloses, under "Risk Factors" and elsewhere, important factors that could cause actual results to differ materially from the expectations of the Issuer or the Guarantor. All subsequent written and forward-looking statements attributable to the Issuer or the Guarantor or persons acting on behalf of the Issuer or the Guarantor are expressly qualified in their entirety by such cautionary statements.

CERTAIN DEFINED TERMS AND CONVENTIONS

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to "Hong Kong" are to the Hong Kong Special Administrative Region of the People's Republic of China, all references to the "PRC" are to the People's Republic of China, excluding Taiwan, Hong Kong and Macau, all references to "U.S." are to the United States of America, all references to "H.K. dollars," "HK$" or "cents" are to Hong Kong dollars and cents and all references to "U.S. dollars" or "U.S.$" are to the lawful currency of the U.S. Such translations should not be construed as representations that the Hong Kong dollar or U.S. dollar amounts referred to herein could have been, or could be, converted into U.S. dollars or Hong Kong dollars, as the case may be, at that or any other rate or at all. See "Exchange Rates".

As used in this Offering Circular:

"**2G**", "**3G**" and "**4G**" refers to second, third and fourth generation mobile wireless telecommunications technology;

"**ADSL**" refers to asymmetric digital subscriber line technology used for data transmission over fixed-line telephone lines;

"**Adjusted Funds Flow**" refers to the HKT Group's EBITDA, less capital expenditures, customer acquisition costs and licence fees paid, taxes paid, finance costs and interest expense paid, and adjusted for interest income received and changes in working capital. It is not presented as a measure of leverage or liquidity in accordance with HKFRS and should not be considered as representing net cash flows or any other similar measure derived in accordance with HKFRS, or an alternative to cash flow from operations or a measure of liquidity. The computation of the HKT Group's Adjusted Funds Flow may not be comparable to similarly titled measures of other companies;

"**Annual Adjusted Funds Flow**" refers to the HKT Group's Adjusted Funds Flow for a financial year as derived from HKT's annual audited consolidated financial statements;

"**ARPU**" refers to average revenue per user;

“**BA**” refers to the Broadcasting Authority established under the Broadcasting Authority Ordinance in 1987 and which has been replaced since 1 April 2012 by the CA;

“**CA**” refers to the Communications Authority, which merges the offices of the former Broadcasting Authority and Telecommunications Authority;

“**data-switching**” refers to the digital networking communication method that groups transmitted data into blocks for transmission over a network;

“**EBITDA**” represents consolidated earnings before interest income, finance costs, income tax, depreciation of property, plant and equipment, amortisation of land lease premium and intangible assets, gain/loss on disposal of property, plant and equipment, investment properties and interests in leasehold land, net other gains/losses, losses on property, plant and equipment, restructuring costs, impairment losses on goodwill, tangible and intangible assets and interests in associates and jointly controlled companies, and the group’s share of results of associates and jointly controlled companies. While EBITDA is commonly used in the telecommunications, media and IT services industries worldwide as an indicator of operating performance and liquidity, it is not presented as a measure of operating performance in accordance with HKFRS. Furthermore, EBITDA is not a measure of the financial performance leverage or liquidity under HKFRS and should not be considered as representing net cash flows from operating activities or any other performance measure derived in accordance with HKFRS or an alternative to cash flow from operations or a measure of liquidity. The computation of EBITDA may not be comparable to similarly titled measures of other companies;

“**fibre-optic**” refers to optical fibres which carry information using light pulses;

“**FTTx**” refers to fibre-to-the-x, a generic term for any broadband network architecture that uses optical fibre to replace all or part of the usual metal local loop used for last mile telecommunications;

“**Group**” refers to PCCW and its subsidiaries (collectively);

“**HKFRS**” refers to the Hong Kong Financial Reporting Standards issued by the HKICPA;

“**HKICPA**” refers to the Hong Kong Institute of Certified Public Accountants;

“**HKT**” refers to HKT Limited, a company incorporated in the Cayman Islands;

“**HKT Group**” refers to HKT and its subsidiaries (collectively);

“**HKT Trust**” refers to the trust established under the laws of Hong Kong as a fixed single investment trust and known as the “HKT Trust” currently indirectly owned as to approximately 65.54% of the Share Stapled Units by PCCW;

“**Internet**” refers to the global system of interconnected computer networks;

“**IP**” refers to Internet protocol, the protocol used for communicating data across a network;

“**IPTV**” refers to Internet protocol television, a system through which television services are delivered using the architecture and networking methods of the IP suite over a packet-switched network infrastructure, eg. the Internet and managed broadband IP networks;

“**Linked**” refers to the matching and linking of each Unit in the HKT Trust with and to a specifically identified Ordinary Share held by the Trustee-Manager in its capacity as trustee-manager of the HKT Trust, so that the registered holder of the Unit has a beneficial interest in the specifically identified Ordinary Share and any transfer of the Unit also transfers the beneficial interest in the Ordinary Share, in accordance with the HKT Trust Deed; and “Linking” shall be construed accordingly;

"**Media Business**" refers to the television and "new media" businesses carried on by the Group and as described in this Offering Circular;

"**OFTA**" refers to the Office of the Telecommunications Authority in Hong Kong and which has been replaced since 1 April 2012 by the CA;

"**Ordinary Share**" refers to ordinary shares of HK$0.0005 each in HKT conferring the rights set out in the articles of association of HKT;

"**PCCW**" refers to PCCW Limited, a company listed on The Stock Exchange of Hong Kong Limited (stock code: 0008);

"**PCPD**" refers to Pacific Century Premium Developments Limited, a company listed on The Stock Exchange of Hong Kong Limited (stock code: 0432) currently owned as to approximately 61.53% by a wholly-owned subsidiary of PCCW;

"**PCPD Group**" refers to PCPD and its subsidiaries (collectively);

"**Preference Share**" refers to the preference shares of HK$0.0005 each in HKT conferring the rights set out in the articles of association of HKT;

"**SFO**" refers to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified for the time being;

"**Share Stapled Unit**" refers to the combination of the following securities or interests in securities which, subject to the provisions in the HKT Trust Deed, can only be dealt with together and may not be dealt with individually or one without the others:

(a) a Unit in the HKT Trust;

(b) the beneficial interest in a specifically identified Ordinary Share Linked to the Unit and held by the Trustee-Manager as legal owner in its capacity as trustee-manager of the HKT Trust; and

(c) a specifically identified Preference Share Stapled to the Unit;

"**Smartphones**" refers to mobile phones offering advanced capabilities;

"**Solutions Business**" refers to the outsourcing and managed services, system solutions development and integration, technical services and infrastructure solutions, and business processes and logistics businesses carried on by the Group in Hong Kong and in the PRC, as described in this Offering Circular;

"**Stapled**" refers to the means by which each Unit in the HKT Trust is attached to a specifically identified Preference Share so that one may not be dealt with without the other, in accordance with the HKT Trust Deed; and "Stapling" shall be construed accordingly;

"**Telecommunications Business**" refers to the businesses carried on by the Telecommunications Group;

"**Telecommunications Group**" refers to HKT and its subsidiaries taken as a whole;

"**HKT Trust Deed**" refers to the trust deed dated 7 November 2011 and executed by the Trustee-Manager and HKT to constitute the HKT Trust;

"**Trustee-Manager**" refers to HKT Management Limited, a company incorporated in Hong Kong with limited liability, a wholly-owned subsidiary of PCCW and the trustee-manager of the HKT Trust;

"**UKBB**" refers to UK Broadband Limited, an indirect wholly-owned subsidiary of PCCW;

“**Unit**” refers to an undivided interest in the HKT Trust, which confers the rights stated in the HKT Trust Deed as being conferred by a Unit (whether in its own right or as a component of a Share Stapled Unit);

“**VDSL**” refers to very-high-bitrate digital subscriber line, a digital subscriber line technology providing faster data transmission over a single flat untwisted or twisted pair of copper wires (up to 52 Mbit/s downstream and 16 Mbit/s upstream) and on coaxial cable (up to 85 Mbit/s down-and upstream), utilising the frequency band from 25 kHz to 12 MHz. An enhanced variant known as VDSL-2 can offer even higher data rates;

“**Wi-Fi**” refers to the trademark used to brand a variety of products that belong to a class of wireless local area network devices.

Any discrepancies in the tables included herein between the listed amounts and the totals thereof are due to rounding.

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SUMMARY

The summary below is only intended to provide a limited overview of information described in more detail elsewhere in this Offering Circular. As it is a summary, it does not contain all the information that may be important to investors and terms defined elsewhere in this Offering Circular shall have the same meanings when used in this summary. Prospective investors should therefore read this Offering Circular in its entirety. The summary is also qualified in its entirety by the audited financial statements of the Guarantor and notes thereto (the "Audited Financial Statements"), and the selected consolidated financial information of the Guarantor appearing elsewhere in this Offering Circular.

Overview

PCCW, whose shares are listed on The Stock Exchange of Hong Kong Limited (stock code: 0008) and traded in the form of American Depositary Receipts (ADRs) on the OTC Markets Group Inc. in the U.S. (Ticker: PCCWY), is a Hong Kong incorporated and based company which holds interests in telecommunications, media, IT solutions, property development and investment, and other businesses.

PCCW currently holds a majority interest of approximately 65.54%[(1)] in the HKT Trust and HKT, Hong Kong's premier telecommunications service provider. HKT offers a wide range of products and services to meet the needs of the Hong Kong public and local and international businesses including local telephony, local data and broadband, international telecommunications, mobile, and other telecommunications businesses such as customer premises equipment sale, outsourcing, consulting, and contact centres.

PCCW also owns a fully integrated multimedia and entertainment group in Hong Kong, which includes its successful IPTV operation, now TV. As the provider of Hong Kong's first quadruple-play experience, PCCW offers a range of innovative media content and services across four delivery platforms — fixed-line, broadband Internet access, television and mobile.

The Solutions Business is wholly-owned by the Group and a leading information technology outsourcing and business process outsourcing provider in Hong Kong and the PRC.

In addition, PCCW holds a majority interest of approximately 61.53% in PCPD, and overseas investments including the wholly-owned UKBB.

Employing approximately 20,100 staff, PCCW maintains a presence in Hong Kong, the PRC as well as other parts of the world.

The Group primarily operates through five business segments: the Telecommunications Business, Media Business, Solutions Business, PCPD and other businesses:

- Telecommunications Business: provides telecommunications products and services primarily in Hong Kong. Its offerings include local telephony, local data and broadband, international telecommunications, mobile, and other telecommunications businesses such as customer premises equipment sale, outsourcing, consulting, and contact centres.

- Media Business: the Group's television and "new media" operations, which include the operation and business development of "now TV", Hong Kong's largest pay-TV provider by number of subscribers, the online business of now.com.hk and the related advertising and interactive businesses that include YP (Yellow Pages) directories.

(1) PCCW's interest in the HKT Trust and HKT Limited is currently approximately 65.54% and the Group continues to control the HKT Group. After a second distribution in specie of Share Stapled Units to shareholders of PCCW which will occur in May 2012, the stake of PCCW in the HKT Trust and HKT Limited will be approximately 63%.

- Solutions Business: offers information technology outsourcing and business process outsourcing services in Hong Kong and the PRC.

- PCPD: PCCW has an approximate 61.53% stake in PCPD which invests in, and develops, infrastructure and properties in Hong Kong, the PRC and elsewhere in the Asia Pacific region.

- Other businesses primarily comprise the Group's corporate support functions and the wholly-owned UKBB.

Competitive Strengths

The Group believes that the following are its principal competitive strengths:

- The Group has a leading position and brand across the Telecommunications, Media and Solutions Businesses;

- PCCW holds a majority interest in the HKT Trust and HKT, Hong Kong's premier telecommunications service provider;

- The Telecommunications Business is resilient and profitable with strong cash flow generation;

- The Group has a strong balance sheet;

- The Group continuously invests in new and emerging media and telecommunications technologies;

- The Group offers to its clients comprehensive delivery platforms;

- The Solutions Business has developed capabilities in complex, mission-critical projects and comprehensive end-to-end services and enjoys a leadership position in the IT services industry in Hong Kong and the PRC; and

- The Group has an experienced management team with significant operational expertise.

Business Strategy

The Group's strategy revolves around the following key initiatives:

- Expanding and focusing on the Media and Solutions Businesses;

- Ensuring disciplined growth in Media and Solutions Businesses;

- Maintaining its position in the Telecommunications Business;

- Broadening the range of products and services offered; and

- Focusing on cost control and efficiency measures.

THE OFFERING

The following is a brief summary of the terms of the offering of the Notes. For a more complete description of the terms of the Notes, see "Terms and Conditions of the Notes" in this Offering Circular. Terms used but not defined herein have the meanings set forth in "Terms and Conditions of the Notes."

Issuer	PCCW Capital No. 4 Limited.
Guarantor	PCCW Limited.
Notes Offered	U.S.$300,000,000 aggregate principal amount of 5.75% Guaranteed Notes due 2022 (the "Notes").
Guarantee	Payment of all sums from time to time payable in respect of the Notes is irrevocably and unconditionally guaranteed by the Guarantor.
Issue Price	98.775%.
Maturity Date	17 April 2022.
Interest Payment Dates	17 April and 17 October in each year, commencing on 17 October 2012.
Interest	The Notes will bear interest from 17 April 2012 at the rate of 5.75% per annum, payable semi-annually in arrear.
Ranking of the Notes	The Notes will constitute direct, general, unconditional, unsubordinated and (subject to Condition 3 of the Terms and Conditions of the Notes) unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
Ranking of the Guarantee	The Guarantee will constitute direct, general, unconditional, unsubordinated and (subject to Condition 3 of the Terms and Conditions of the Notes) unsecured obligations of the Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
Negative Pledge	The Notes will contain a negative pledge provision as further described in Condition 3 of the Terms and Conditions of the Notes.
Events of Default	The Notes will contain certain events of default, including a cross acceleration provision as further described in Condition 8 of the Terms and Conditions of the Notes.

Additional Amounts	In the event that certain British Virgin Islands or Hong Kong taxes are payable in respect of payments under the Notes or the Guarantee or the payment by the Guarantor to the Issuer in order for the Issuer to make a payment in respect of the Notes, the Issuer or the Guarantor, as the case may be, will, subject to certain exceptions, pay such additional amounts under the Notes, the Guarantee, as the case may be, as will result, after deduction or withholding of such taxes, in the payment of the amounts that would have been payable in respect of the Notes or the Guarantee, as the case may be, had no deduction or withholding been required. See "Terms and Conditions of the Notes — Taxation."
Redemption for Tax Reasons	The Notes are not redeemable prior to maturity except that the Notes may be redeemed at any time at the option of the Issuer, in whole but not in part, at 100% of the principal amount thereof, plus accrued and unpaid interest, in the event, as a result of certain developments affecting taxation described herein, either the Issuer or the Guarantor is, or would be, obligated to pay additional amounts in respect of the Notes or Guarantee. See "Terms and Conditions of the Notes — Redemption for tax reasons."
Redemption for Change of Control	A Noteholder shall have the right, at such Noteholder's option, to require the Issuer to redeem, in whole but not in part, at 101% of their principal amount thereof, plus accrued and unpaid interest up to, but excluding the Put Settlement Date (as defined in the Terms and Conditions of the Notes), upon the occurrence of a Change of Control with respect to the Guarantor.
Further Issues	The Issuer may, from time to time, without the consent of the holders of the Notes, create and issue further notes having the benefit of a guarantee from the Guarantor and the same terms and conditions as the Notes in all respects (or in all respects except for the issue date, issue price, and the first interest payment date and, to the extent necessary, certain temporary securities law transfer restrictions). Additional notes issued in this manner will be consolidated and form a single series with the previously outstanding Notes.
Governing Law	The Notes and the Trust Deed and all non-contractual obligations arising out of or in connection with them are governed by English law.
Denomination, Form and Registration	The Notes will be registered and issued in the denomination of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.

Clearing Systems	The Notes will be represented by beneficial interests in the Global Certificate, which will be registered in the name of a nominee of, and deposited on the Closing Date with, a common depositary for, Euroclear and Clearstream. Beneficial interests in the Global Certificate will be shown on and transfers thereof will be effected only through records maintained by Euroclear and Clearstream. Except as described herein, individual certificates evidencing the Notes will not be issued in exchange for beneficial interests in the Global Certificate.
Clearance and Settlement	The Notes have been accepted for clearance through Euroclear and Clearstream under the following codes: ISIN: XS0766460157 Common Code: 076646015
Listing.	Approval in-principle has been received for the listing of the Notes on the SGX-ST. The Notes will be traded on the SGX-ST in a minimum trading board lot size of U.S.$200,000 for so long as the Notes are listed on the SGX-ST.
Trustee	The Bank of New York Mellon, London Branch.
Registrar.	The Bank of New York Mellon (Luxembourg) S.A.
Principal Paying Agent	The Bank of New York Mellon, London Branch.
Use of Proceeds	The net proceeds of the offering of the Notes, after deducting underwriting commissions and expenses, are estimated to be approximately U.S.$295 million. The Group will use the net proceeds for its general corporate purposes.

SELECTED FINANCIAL INFORMATION

The following tables set forth the summary of consolidated financials of PCCW as at and for the years indicated. The selected financial information presented below as at 31 December 2010 and 31 December 2011 and for the two years ended 31 December 2011 has been extracted from PCCW's audited consolidated financial statements for the year ended 31 December 2011 and should be read in conjunction with the audited consolidated financial statements of PCCW, including the notes thereto, included elsewhere in this Offering Circular.

Consolidated Balance Sheet

	As at 31 December	
	2010	2011
	(HK$ million)	
ASSETS AND LIABILITIES		
Non-current assets		
Property, plant and equipment	15,452	15,477
Investment properties	5,085	5,384
Interests in leasehold land	552	530
Properties held for/under development	1,052	1,105
Goodwill	3,170	3,170
Intangible assets	2,388	2,812
Interests in associates	233	402
Interests in jointly controlled companies	477	515
Held-to-maturity investments	2	2
Available-for-sale financial assets	281	575
Derivative financial instruments	152	275
Deferred income tax assets	78	148
Other non-current assets	465	514
	29,387	30,909
Current assets		
Properties for sale	772	455
Sales proceeds held in stakeholders' accounts	845	632
Restricted cash	2,281	735
Prepayments, deposits and other current assets	3,226	3,497
Inventories	957	1,166
Amounts due from related companies	2	—
Derivative financial instruments	17	—
Trade receivables, net	2,529	3,084
Tax recoverable	16	7
Cash and cash equivalents	8,101	5,365
	18,746	14,941

	As at 31 December	
	2010	2011
	(HK$ million)	
Current liabilities		
Short-term borrowings	(7,800)	(40)
Trade payables	(1,705)	(1,777)
Accruals and other payables	(4,005)	(4,134)
Amount payable to the Government under the Cyberport Project Agreement	(1,606)	(603)
Carrier licence fee liabilities	(143)	(187)
Amounts due to related companies	(57)	(27)
Advances from customers	(1,860)	(1,750)
Current income tax liabilities	(568)	(786)
Dividend payable	—	(1,443)
	(17,744)	(10,747)
Net current assets	1,002	4,194
Total assets less current liabilities	30,389	35,103
Non-current liabilities		
Long-term borrowings	(27,041)	(23,470)
Derivative financial instruments	(102)	—
Deferred income tax liabilities	(2,109)	(2,222)
Deferred income	(727)	(893)
Defined benefit liability	(4)	(3)
Carrier licence fee liabilities	(895)	(815)
Other long-term liabilities	(119)	(120)
	(30,997)	(27,523)
Net (liabilities)/assets	(608)	7,580
CAPITAL AND RESERVES		
Share capital	1,818	1,818
(Deficit)/Reserves	(5,081)	4,286
Equity attributable to equity holders of PCCW	(3,263)	6,104
Non-controlling interests	2,655	1,476
Total equity	(608)	7,580

Consolidated Income Statement

	For the year ended 31 December	
	2010	2011
	(HK$ million)	
Turnover	22,962	24,638
Cost of sales	(10,533)	(11,397)
General and administrative expenses	(8,924)	(9,604)
Other gains, net	1,217	143
Interest income	27	71
Finance costs	(1,587)	(1,565)
Share of results of associates	47	44
Share of results of jointly controlled companies	(129)	(12)
Profit before income tax	3,080	2,318
Income tax	(756)	(542)
Profit for the year	2,324	1,776
Attributable to:		
Equity holders of PCCW	1,926	1,607
Non-controlling interests	398	169
Profit for the year	2,324	1,776

Consolidated Statement of Comprehensive Income

	For the year ended 31 December	
	2010	2011
	(HK$ million)	
Profit for the year	2,324	1,776
Other comprehensive income		
Translation exchange differences:		
- exchange differences on translating foreign operations	436	269
Available-for-sale financial assets:		
- changes in fair value	27	97
- transfer to income statement on disposal	(10)	—
Cash flow hedges:		
- effective portion of changes in fair value	24	16
- transfer from equity to income statement	(94)	(49)
Other comprehensive income for the year	383	333
Total comprehensive income for the year	2,707	2,109
Attributable to:		
Equity holders of PCCW	2,205	1,833
Non-controlling interests	502	276
Total comprehensive income for the year	2,707	2,109

RISK FACTORS

Any potential investor should carefully consider the following risk factors, together with all of the other information contained in this Offering Circular, before making an investment decision. These risk factors could cause the Group's future results to differ materially from those expressed or implied in any forward-looking statements made by any member of the Group. The risks and uncertainties described below are not the only ones the Group faces. Additional risks and uncertainties not presently known to the Group or that the Group currently considers immaterial may also harm the Group's business.

RISKS RELATING TO THE GROUP'S BUSINESS

The Group faces challenges in executing its growth strategy

The Group's business strategy is to focus on developing its media and its IT solutions' businesses growth, both organically and through new business combinations, strategic investments and acquisitions. However, the Group may face challenges in executing such strategy, including:

- availability and pricing of capital raising on suitable terms;
- competition in its markets and challenges in maintaining customers and enhancing its services;
- the existence of regulatory requirements and barriers;
- the difficulty of integrating the operations and personnel of the acquired companies;
- the potential disruption to the Group's ongoing business and the distraction of its management;
- the difficulty of incorporating acquired technology and rights into the Group's products and services;
- the impairment of relationships with employees and customers as a result of integration of new management and personnel;
- potential unknown liabilities associated with acquired businesses; and
- adverse effects on the Group's reported operating results due to the amortisation of and potential impairment provision for goodwill and other intangible assets associated with acquisitions and losses sustained by acquired companies after the date of acquisitions.

There is no assurance that the Group will be able to implement its growth strategies successfully or that it will be able to expand the Group's activities or portfolio at any specified rate or to any specified size. The Group may not be able to complete its plans on schedule or without incurring additional expenditures or at all.

If market conditions change, if operations do not generate sufficient funds or for any other reason, the Group may decide to delay, modify or forego some aspects of its growth strategies. The Group's future results of operations may be adversely affected if it is unable to implement growth strategies successfully.

The Group may be susceptible to risks associated with expanding its operations overseas, which could harm its operating results

The Group plans to offer the content, network, operations and management experience and expertise that it has acquired in Hong Kong to clients and business partners in overseas markets. The Group expects to commit substantial time and development resources to customising and developing its products and services for overseas markets and to developing relevant sales and support channels. The Group's ability to expand into these overseas markets may be constrained by the pace of deregulation in individual markets, including the timing of the removal of restrictions on foreign participation. In addition, operations outside of Hong Kong will be subject to certain risks, including:

- lack of familiarity with the overseas market, such as customer preferences and competitors' practices;
- multiple and conflicting regulations relating to communications, use of data and control of Internet access;
- changes in regulatory requirements, tariffs and import and export restrictions;
- increased costs associated with complying with the laws of numerous jurisdictions;
- fluctuations in currency exchange rates;
- lack of clarity in the interpretation of laws and regulations;
- insufficient protection of intellectual property rights;
- changes in political and economic stability; and
- potentially adverse tax consequences.

Any of these factors could have a material and adverse effect on the Group's business, results of operations and financial condition.

The HKT Group's Annual Adjusted Funds Flow may not be sufficient to allow the HKT Trust to make distributions to holders of Share Stapled Units at all or the level of distributions may fall

Although the HKT Trust Deed requires the HKT Trust to distribute 100% of its cash flows from dividends, other distributions and any amounts received from the HKT Group, if the HKT Group's Annual Adjusted Funds Flow, after adjusting for potential debt repayment, is lower than expected, the HKT Group's (and therefore the HKT Trust's) ability to make distributions will be adversely affected.

The HKT Trust will rely on the receipt of dividends, distributions and other amounts from HKT in order to make distributions to holders of Share Stapled Units (including the Guarantor, through a wholly-owned subsidiary). There can be no assurance that HKT or other members of the HKT Group will have sufficient distributable profits or other distributable reserves in any future period to make dividends, distributions or other payments to the HKT Trust to enable the HKT Trust to make distributions to the holders of Share Stapled Units (including the Guarantor, through a wholly-owned subsidiary). The ability of the HKT Group to pay dividends and/or make other distributions to the HKT Trust may be affected by a number of factors including, among other things:

- the HKT Group's businesses and their respective financial positions;
- insufficient cash flows received from the assets held by the HKT Group;

- applicable laws and regulations, which may restrict the payment of dividends by the HKT Group companies;
- operating losses incurred by the HKT Group companies in any financial year;
- changes in accounting standards, tax laws and regulations, laws and regulations in respect of foreign exchange repatriation of funds, corporate laws and regulations relating thereto in Hong Kong and/or the Cayman Islands;
- trapped cash in the HKT Group companies (as a result of depreciation being a mandatory accounting expense under the applicable accounting standards), which cannot be effectively utilised when the existing shareholder's loans at the Hong Kong companies have been fully repaid;
- the terms of agreements to which the HKT Group companies are, or may become, party;
- compliance with financial undertakings imposed under the HKT Group's loan facilities such as the ratio of EBITDA to interest and the ratio of net debt to EBITDA; and
- funding requirements with reference to the prevailing business environment and operations, expansion plans, other capital management considerations, the overall stability of distributions and prevailing industry practice.

Further, any change in the applicable laws in Hong Kong and/or the Cayman Islands may limit the HKT Group's ability to pay dividends and/or make other distributions to the HKT Trust and, therefore, the HKT Trust's ability to pay or maintain distributions to holders of Share Stapled Units.

No assurance can be given as to the HKT Trust's ability to pay or maintain distributions in respect of the Share Stapled Units or that the level of distributions will increase over time.

Regulatory decisions could adversely affect the Group

The regulators of the telecommunications and broadcasting industries in Hong Kong were, with effect from 1 April 2012, merged into a single entity, the CA which oversees these two industries. The existing Telecommunications Ordinance and Broadcasting Ordinance have not been changed as to substance. The CA will continue to regulate the telecommunications and broadcasting industries under the existing laws, licences, regulations and policies which could have significant adverse effects on the businesses of the Group.

Under the Telecommunications Ordinance, the CA, on the basis of the powers originally conferred to the Telecommunications Authority, has certain discretionary powers to direct the Group and its other licensees to undertake and provide certain interconnection services and facilities and to impose the terms and conditions of interconnection. It may also direct its licensees to co-operate and share any facilities owned by them in the public interest. In the event the CA exercises such powers and the Group is required to undertake and provide interconnection services and facilities or co-operate and share facilities with other operators, the Group may be required to do so on terms which force it to incur costs that may not be fully recoverable.

Since 1995, most interconnection and facility sharing issues have been resolved either by industry agreement or OFTA intervention. Fixed to fixed interconnection arrangements have not been the subject of significant regulatory dispute or OFTA intervention for several years. Mobile to mobile interconnection has always been carried out pursuant to carrier agreements employing a Bill and Keep methodology. Unbundled local loop requirements have been phased out and arrangements are now governed by carrier-to-carrier contracts. In April 2007, subject to a two-year transition period, the Telecommunications Authority withdrew its guidance for interconnection terms between fixed network and mobile telecommunications operators, leaving carriers to negotiate their own terms of interconnection. The Group has agreed fixed-mobile interconnection terms with some Hong Kong carriers, but in relation to those with which it has not agreed terms, traffic is exchanged under the

Telecommunications Authority's "any-to-any" requirements (where any customer in any network can have access to and is able to call any other customer in the same or other network and where directed by the Telecommunications Authority, have access to any service offered in any other network). Should the Group be unable to agree interconnection terms with other mobile licensees, the CA could intervene and invoke its power to determine these terms. The Group (with both fixed and mobile businesses) can give no assurance that the results of any regulatory intervention will be favourable to the Group.

In 2011, OFTA completed its review of its Local Access Charge ("LAC") regime which relates to the interconnection charges applied to international voice minutes which originate or terminate on the fixed networks in Hong Kong. It has decided to extend the LAC regime to the mobile network operators and to deregulate the payment levels subject to an 18 month transition period which will end on 30 June 2013. Both fixed and mobile network operators will be entitled to receive LAC (via tariffs or commercial arrangements). With a view to facilitating the agreement of interconnection terms, OFTA has published guiding principles which would apply if it were required to make a determination regarding the LAC payable between operators under the new market-based regime. The Group can give no assurance that the results of commercial negotiations or a determination will be favourable to the Group, and an unfavourable outcome may result in decreased LAC rates and revenues for the Group.

Increased competition has adversely affected and may continue to affect the Group's businesses

The Hong Kong Government's policies relating to liberalisation of the telecommunications industry and promotion of broadcasting services has led to increased competition for the Group in the markets for local and international telecommunications and television services. New licences were granted to other service providers and the industry has had to adapt to significantly more competitors in the market. The Group has operated in this competitive landscape for over fifteen years and has had to adapt its business strategies in light of the changed marketplace. Increased competition has resulted in pricing pressure, loss of market share, additional promotional, marketing and customer acquisition expenses and reduced gross margins for the Group, and such effects may be repeated in the future.

More generally, companies in the Hong Kong telecommunications and broadcasting industries operate under licences granted by OFTA and the BA. The Group's operations could be adversely affected if any of its existing licenses are amended, not renewed or revoked. The viability or competitiveness of the Group's businesses could also be affected by any future regulatory changes. These factors may continue to adversely affect the Group's results of operations, cash flows and financial position.

The Group's substantial debt could impair its ability to implement its business plan

The Group has incurred significant indebtedness and, subject to limitations imposed by lenders, may incur additional debt in the future. As at 31 December 2011, the Group had a combined outstanding long term indebtedness, all of which were in the HKT Group and the PCPD Group, of approximately HK$25,890 million, as adjusted to give effect to (i) the Notes being offered, (ii) the drawdown of bank loans of HK$200 million and HK$683 million in February 2012 and in March 2012 respectively, (iii) the repayment of bank loans of HK$200 million and HK$593 million in February 2012 and in March 2012 respectively and (iv) the repayment of bank loans of Chinese Renminbi ("RMB") 2.5 million in March 2012. See "Description of the Guarantor and the Group — Financing".

As long as the Group has a substantial amount of debt, the consequences of this debt to the Group's business, among other things, could be to:

- require the Group to dedicate a substantial portion of its cash flow from operations to servicing of its existing debt, reducing the availability of its cash flow to fund working capital, capital expenditure, acquisitions, research, development and other general corporate requirements;

- make it more difficult for the Group to satisfy its payment obligations, particularly in the event that market or operational conditions deteriorate;
- increase the Group's vulnerability to general adverse economic and industry conditions;
- limit the Group's flexibility in planning for, or reacting to, changes in its business in which the Group operates;
- limit the Group's ability to obtain refinancing where necessary;
- limit the Group's ability to take advantage of significant new business opportunities; and
- place the Group at a competitive disadvantage compared to its competitors that have less debt.

The Group is exposed to interest rate risk

The Group seeks to achieve a balance between fixed and floating interest rates for its borrowings by managing the proportion of its borrowings in fixed interest rates and floating interest rates. However, its interest rate management policy may not adequately cover the Group's exposure to interest rate fluctuations and this may result in a large interest expense and an adverse effect on the Group's financial condition and results of operations.

Increased competition in the Hong Kong television market

PCCW, through its subsidiary, PCCW Media Limited ("PCCW Media"), holds a domestic pay television programme services licence and through another entity, has applied for a free television licence. The BA has adopted an open market policy which could result in an increased number of market participants, price reductions, reduced gross margins, loss of market share, under-utilisation of resources and additional promotional, marketing and customer acquisition expenses. The pay television market in Hong Kong is highly competitive and PCCW Media is a relatively new market entrant, resulting in significant competition amongst pay television service providers, significant content acquisition costs for key content and significant customer acquisition costs. As a result, the Group's results of operations could be adversely affected.

The Group may not be able to obtain additional capital

The Group expects to continue to make investments to maintain and upgrade its telecommunication networks, acquire and develop content, and market its new and existing services.

The Group may have to obtain additional financing if its business plans are accelerated or are affected by changes in the telecommunications, media or solutions industry, or if its turnover and cash flow are significantly reduced.

Financing may not be available to the Group when needed, or may only be available on terms that are unfavourable to the Group. Any debt financing, if available, may involve restrictive covenants. If the Group is unable to raise the amounts required on favourable terms, it may be unable to pursue its planned strategy, and there can be no assurance that future conditions in the financial markets will not adversely affect its ability to finance its operations. If the Group cannot raise sufficient funds on commercially acceptable terms, it may need to delay or abandon some of its developments and expansion plans or otherwise forgo market opportunities. In addition, if the Group cannot raise new debt or refinance its debt, its ability to pay interest may be affected.

Any asset impairment could adversely affect the Group's financial results

The Group has non-current assets such as property, plant and equipment, interests in leasehold land, intangible assets, goodwill and investments in jointly controlled entities, and it is required to review these assets for impairment at each balance sheet date. This review is made with reference to the recoverable amounts in respect of those assets. Impairment of any of these assets could adversely affect the Group's financial condition and results of operations. The recoverable amount of an asset is the greater of its fair value less costs to sell and its value-in-use. If the carrying value of an asset as reflected in the Group's balance sheet is higher than its recoverable amount, it must make an asset impairment charge to its income statement.

The recoverable amount of an asset depends on the prevailing market conditions at the time of the review, the nature of the asset, its fair value and estimated future cash flows that are expected to be derived from the asset. The discount rate used in this review reflects the Group's current market assessment of the time value of money and the risks specific to the asset. Any reduction in the recoverable amount of an asset below its carrying value, whether due to a weak economic environment, challenging market conditions, asset or portfolio sale decisions by management or any other condition or occurrence, could be charged to the income statement and could thus materially and adversely affect the Group's results of operations and shareholders' equity in the period in which the impairment occurs.

Critical accounting estimates and judgments

Note 4 to the audited consolidated financial statements of PCCW sets out certain critical accounting estimates and judgments, including certain subjective estimates and judgments made by the Group's management team. The underlying assumptions on which these critical accounting estimates and judgments were based may not turn out to be correct, the result of which there may be a material adverse effect on the Group's results of operations and financial position. In addition, accounting estimates used in the preparation of PCCW's financial statements in relation to taxes may not be recognised or agreed by the relevant tax authorities in their ultimate assessments. Investors should refer to Note 4 of the consolidated financial statements of PCCW, which are incorporated in this Offering Circular for further information.

The Group's ability to introduce new technologies to successfully respond to technological developments and to adapt existing technologies may be limited

The Group's operations depend on the successful deployment of continuously evolving technologies, particularly in view of its expansion plans in the wireless broadband and 4G market and its response to technological and industry developments.

The Group cannot be certain that technologies will be developed in time to meet changing market conditions, that they will perform according to expectations or that they will achieve commercial acceptance. The failure of vendor performance or technology performance to meet the Group's expectations or the failure of technology to achieve commercial acceptance could mean that the Group has to make additional unexpected capital expenditures. In addition, the Group may not be able to adapt its services to changing market conditions or establish and maintain effective distribution channels for its services. Competitors may adapt more successfully to changing market conditions, establish more effective distribution channels or introduce technologies that make the Group's products and services less competitive.

A recurrence of Severe Acute Respiratory Syndrome ("SARS"), bird flu, swine flu or other similar outbreaks in the PRC, Hong Kong or certain other Asian countries may adversely affect the Group's businesses, results of operations and financial condition

There were media reports in 2009 regarding an outbreak of the influenza A/H1N1 virus or "swine flu" in the U.S., Mexico, and other countries. On 11 June 2009, the World Health Organisation raised its global pandemic alert to phase 6 after considering data confirming the outbreak. The occurrence or reoccurrence of a swine flu or other outbreak, such as an outbreak of SARS, in the PRC, Hong Kong or certain other Asian countries may adversely affect the Group's customers and its ability to conduct business development. The occurrence of such an outbreak may also cause a general slowdown of the economy, and hence, the demand for the Group's products and services. The prolonged effects of such an outbreak may have a material adverse impact on the Group's business, results of operations and financial condition.

An economic downturn could adversely affect the Group's results of operations

Economic developments outside Hong Kong and the PRC could adversely affect the telecommunications, multimedia and broadcasting sectors in Hong Kong and the PRC. Since the second half of 2008, the global credit markets have experienced, and may continue to experience, significant dislocations and liquidity disruptions which have originated from liquidity disruptions in the U.S. and the European Union credit and sub-prime residential mortgage markets. The deterioration of the financial markets contributed to a recession in the United States and a slowdown in the global economy, which led to significant declines in employment, household wealth, consumer demand and the announcement of stimulus measures by a number of governments including quantitative easing. These and other related events, such as the collapse of a number of financial institutions and other entities; rising government deficits and debt levels together with the downgrading of the sovereign debt of certain member states of the European Union; the ensuing bailouts of Ireland, Greece and Portugal; government deficit and other debt reduction measures, notably in the United States; and the downgrading of the United States' sovereign debt, have had, or may have, a significant adverse impact on, among other things, employment rates, household wealth, consumer demand and lending, which as a result may adversely affect, economic growth in Hong Kong and the PRC. In addition, the occurrence of accelerated inflation or deflation and increasing oil prices may affect global market conditions. While the U.S., the PRC and various European governments have launched various fiscal stimulus and rescue packages aimed at restoring liquidity, there can be no assurances that these will result in financial stability. There is also uncertainty as to the potential for a downturn in the U.S. and the global economy, a decrease in consumer demand and the impact of such downturns on the Hong Kong and Chinese economies.

The deterioration in the financial markets has contributed to a recession in the U.S., European and global economy, which has resulted in declines in employment, household wealth, consumer demand and lending and as a result may adversely affect economic growth in Hong Kong, the PRC and elsewhere.

Although there have been recent signs of a possible economic recovery, there can be no assurance that the U.S., European or the global economy will not lapse back into recession and lead to reduced corporate investment and corporate and consumer spending in Hong Kong.

In addition, changes in the global credit and financial markets have recently affected the availability of credit and led to an increase in the cost of financing. The Group may have difficulty accessing the financial markets, which could make it more difficult or expensive to obtain funding in the future. There can be no assurance that the Group will be able to raise finance at a reasonable cost.

Currency fluctuations could adversely affect the Group's results of operations

Although a significant part of the Group's outstanding debt and guarantee obligations are denominated in U.S. dollars, the Group has entered into a series of cross-currency swap contracts with reputable financial institutions to swap substantially all of these liabilities back into the Hong Kong dollar. Whilst such transactions hedge the Group's foreign currency risk, they do expose the Group to counterparty risk. The Hong Kong dollar has been pegged to the U.S. dollar since 1983. However, there is no assurance that such a peg will be maintained in the future. Therefore the Group's results of operations and ability to discharge its obligations could be adversely affected by the discontinuation or revaluation of the peg between the Hong Kong dollar and U.S. dollar or the insolvency of a swap counterparty. In addition, even if the peg continues, the Group's operating costs could be adversely affected by substantial fluctuations in the U.S. dollar.

Risks relating to complex transactions and contractual arrangements

The Group has entered into a number of complex transactions and contractual arrangements. These include, among other things, financing and other contracts and instruments, investments, acquisitions, sales agreements, intra group transfer pricing arrangements and other contractual arrangements. These transactions and contractual arrangements could give rise to differences in interpretation, disputes, claims or other developments with the applicable counterparties or regulators, which could have a material adverse effect on the Group's business, financial condition or results of operations.

Loss of key management and other qualified personnel could weaken the Group's businesses

A small group of key executive officers manages the Group and the loss of services of one or more of these key individuals could affect the Group's ability to make successful strategic decisions.

The service contracts with these executive management are terminable with notice periods ranging from three to twelve months. The Group cannot guarantee that these contracts will allow it to retain key employees. Additionally, the Group does not presently maintain any "key person" insurance.

The Group's management believes that its growth and success will depend largely upon its ability to attract, train, retain and motivate highly skilled and qualified managerial, sales, marketing, administrative, operating and technical personnel. The loss of key personnel, or the inability to find additional qualified personnel, could materially and adversely affect the Group's prospects and results of operations.

RISKS RELATING TO THE HKT GROUP AND TO ITS STRUCTURE

The structure involving the listing of the HKT Trust, HKT and the Share Stapled Units is novel and there is no precedent for it in the Hong Kong market

While considerable efforts have been made to afford holders of Share Stapled Units (including the Guarantor, through a wholly-owned subsidiary) levels of investor protection equivalent to those applicable to shareholders of companies listed on The Stock Exchange of Hong Kong Limited, the application of the relevant investor protection legislation to the Share Stapled Units structure is subject to the interpretation of the Courts. To mitigate this risk, an opinion has been obtained at the time of the HKT Global Offering (as defined in "Description of the Guarantor and the Group — Structure of the Group") from leading counsel that the Share Stapled Units (and, thereby, the HKT Trust, the Trustee-Manager and HKT) complied with the provisions of the SFO. On this basis, the Securities and Futures Commission of Hong Kong formed the view that the HKT Trust was eligible for listing.

The listing structure involving the HKT Trust, HKT and the Share Stapled Units is novel and the HKT Trust and/or HKT may be affected by the introduction of new legislation, regulations, guidelines or directives

The listing structure involving the HKT Trust, HKT and the Share Stapled Units is novel and no assurance can be given that the introduction of new legislation, regulations, guidelines or directives relevant to the HKT Trust and/or HKT will not adversely affect the financial condition and results of operations of the HKT Trust and/or HKT and/or the HKT Group, and therefore the expected return of an investment in the Share Stapled Units by any holder, including the Guarantor, through a wholly-owned subsidiary.

The introduction of new legislation, or amendment of existing legislation, in the Cayman Islands restricting the funds from which HKT is permitted to make distributions may reduce the level of distributions to holders of Share Stapled Units

The HKT Trust will rely on distributions from HKT in order to make distributions to holders of Share Stapled Units, including the Guarantor, through a wholly-owned subsidiary. No assurance can be given that new legislation in the Cayman Islands will not be introduced, or that existing legislation in the Cayman Islands will not be amended or repealed, which would restrict the funds from which HKT is permitted to make distributions; and thereby reduce the level of distributions to holders of Share Stapled Units, including the Guarantor, through a wholly-owned subsidiary.

RISKS RELATING TO PCPD

The property market is cyclical

PCPD is dependent on the state of the property markets in Hong Kong, the PRC, Japan and Thailand. Such markets may be cyclical and property values may be affected by supply of and demand for comparable properties, the rate of economic growth in the concerned regions and political and social developments.

PCPD faces property development risk

The property development business involves significant risks distinct from those involved in the ownership and operation of established properties, including the risks that government approvals may take more time and resources to obtain than expected, that government policies, regulations and measures may change, in particular regarding land supply control and land availability; that construction may not be completed on schedule or budget; and that the properties may not achieve anticipated sales, rents or occupancy levels.

In addition, development projects typically require substantial capital expenditure during construction and it may take years before property projects generate cash flows. There is the risk that financing for development may not be available under favourable terms, or that construction may not be completed on schedule or within budget. The time and the costs involved in completing construction can be adversely affected by many factors, including shortages of materials, equipment and labour; adverse weather conditions; natural disasters; labour disputes with contractors and subcontractors; accidents; changes in government priorities; and unforeseen problems or circumstances. The occurrence of any of these factors could give rise to delays in the completion of a project and result in cost overruns. This may also result in the profit on development for a particular property not being recognised in the year in which it was originally anticipated to be recognised, which could adversely affect PCPD's profits recognised for that year.

Further, the failure to complete construction of a project to its planned specifications or schedule may result in liabilities, reduced project efficiency and lower returns. No assurance can be given that such events will not occur in a manner that would adversely affect the results of operations or financial condition of PCPD.

RISKS RELATING TO THE NOTES

Risks associated with limited liquidity of the Notes

No public market exists for the Notes. Approval in-principle has been received for the listing of the Notes on the SGX-ST; however, the offering and settlement of the Notes is not conditioned on obtaining a listing. No assurances can be given as to whether a trading market for the Notes will develop or as to the liquidity of any such trading market. If any of the Notes are traded after their initial issue, they may trade at a discount or premium from their initial offering price, depending on prevailing interest rates, the market for similar securities and the market for the Notes and other factors, including general economic conditions and the Group's financial condition, performance and prospects. No assurance can be given as to the future price level of the Notes after their initial issue.

Claims by holders of the Notes are structurally subordinated to the Guarantor's subsidiaries

The Issuer is a special purpose vehicle and its ability to make payments in respect of the Notes depends largely upon the repayment of principal and interest by other members of the Group; the ability of the Guarantor to make payments under the Guarantee depends largely upon the receipt of dividends and distributions, interest payments or advances from its subsidiaries and associates. The ability of the members of the Group to make such repayments to the Issuer or to pay such amounts to the Guarantor may be subject to the profitability of the Group and applicable laws. Payments by other members of the Group to the Issuer are structurally subordinated to all existing and future liabilities and obligations of the Guarantor's subsidiaries. Claims of creditors of such subsidiaries will have priority as to the assets of such subsidiaries over the Guarantor and its creditors, including the Issuer.

The Notes may not be a suitable investment for all investors

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;

- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Additionally, the investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

The Issuer may not be able to redeem the Notes upon the due date for redemption thereof

The Issuer may (and at maturity, will) be required to redeem all of the Notes. If a redemption event, such as Redemption for Change of Control under the Terms and Conditions of the Notes, were to occur, the Issuer (failing which the Guarantor) may not have sufficient cash on hand and may not be able to arrange financing to redeem the Notes in time, or on acceptable terms, or at all. The ability to redeem the Notes in such event may also be limited by the terms of other debt instruments. Failure to repay, repurchase or redeem tendered Notes by or on behalf of the Issuer may constitute an event of default under the Notes, which may also constitute a default under the terms of the Issuer's or Guarantor's other indebtedness.

TERMS AND CONDITIONS OF THE NOTES

The following (other than the words in italics) is the text of the terms and conditions of the notes which will appear on the reverse side of each of the individual certificates evidencing the notes:

The U.S.$300,000,000 5.75 per cent. Guaranteed Notes due 2022 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 14 (*Further Issues*) and forming a single series therewith) of PCCW Capital No. 4 Limited (the "**Issuer**") are constituted by, are subject to, and have the benefit of, a trust deed dated 17 April 2012 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer, PCCW Limited (the "**Guarantor**") and The Bank of New York Mellon, London Branch as trustee (the "**Trustee**", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed) and are the subject of an agency agreement dated 17 April 2012 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, the Guarantor, The Bank of New York Mellon (Luxembourg) S.A. as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), The Bank of New York Mellon, London Branch as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed from time to time in connection with the Notes), the paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the Trustee. References herein to the "**Agents**" are to the Registrar, the Principal Paying Agent and the Paying Agents and any reference to an "**Agent**" is to any one of them. Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and subject to their detailed provisions. The Noteholders (as defined below) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection by Noteholders during normal business hours at the specified office for the time being of the Trustee, being at the date hereof 40th Floor, One Canada Square, London E14 5AL, United Kingdom and at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out below.

1. **Form, Denomination, Status and Guarantee**

(a) *Form and denomination*: The Notes are in registered form in the denomination of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each, an "**Authorised Denomination**").

(b) *Status of the Notes*: The Notes constitute direct, general, unconditional, unsubordinated and (subject to Condition 3 (*Negative Pledge*)) unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

(c) *Guarantee of the Notes*: The Guarantor has in the Trust Deed, unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes. This guarantee (the "**Guarantee of the Notes**") constitutes direct, general, unconditional, unsubordinated and (subject to Condition 3 (*Negative Pledge*)) unsecured obligations of the Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

2. **Register, Title and Transfers**

(a) *Register*: The Registrar will maintain a register (the "**Register**") in respect of the Notes outside of the United Kingdom in accordance with the provisions of the Agency Agreement. In these Conditions, the "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A certificate (each, a "**Note Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.

(b) *Title*: The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of the Notes or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

(c) *Transfers*: Subject to paragraphs (f) (*Closed periods*) and (g) (*Regulations concerning transfers and registration*) below, a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar, together with such evidence as the Registrar may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; *provided, however, that* a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Denominations. No transfer of title to a Note will be valid unless and until entered on the Register. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.

(d) *Registration and delivery of Note Certificates*: Within five business days of the surrender of a Note Certificate in accordance with paragraph (c) (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant Holder at its Specified Office or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day (other than a Saturday or a Sunday) on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar has its Specified Office.

(e) *No charge*: The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(f) *Closed periods*: Noteholders may not require transfers to be registered: (i) after a notice of redemption has been validly delivered pursuant to Condition 5(c) (*Redemption of Change of Control*); and (ii) during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

(g) *Regulations concerning transfers and registration*: All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

3. **Negative Pledge**

So long as any Note remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantor shall, and the Issuer and the Guarantor shall procure that none of their respective

Principal Subsidiaries (excluding any Listed Subsidiary and any Subsidiaries of such Listed Subsidiary) will, create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness or guarantee or indemnity of Relevant Indebtedness without (a) at the same time or prior thereto securing the Notes equally and rateably therewith to the satisfaction of the Trustee or (b) providing such other security for the Notes as the Trustee may in its absolute discretion consider to be not materially less beneficial to the interests of the Noteholders or as may be approved by an Extraordinary Resolution (as defined in the Trust Deed) of Noteholders.

In these Conditions:

"**Capital Stock**" means any and all shares, interests (including joint venture interests), participations or other equivalents (howsoever designated) of capital stock of a corporation or any and all equivalent ownership interests in a Person (other than a corporation);

"**Listed Subsidiary**" means any Subsidiary, the shares of which at the relevant time listed on The Stock Exchange of Hong Kong Limited or any other stock exchange;

"**Person**" means any individual, corporation, limited liability company, partnership, joint venture, association, joint stock company, trust, unincorporated organisation, government or any agency or political subdivision thereof or any other entity;

"**Principal Subsidiary**" means a Subsidiary of the Guarantor:

(a) as to which one or more of the following conditions is satisfied:

(i) its net profit or (in the case of a Subsidiary of the Guarantor which has Subsidiaries) consolidated net profit attributable to the Guarantor (in each case before taxation and exceptional items) is at least 5 per cent. of the consolidated net profit of the Guarantor and its Subsidiaries (before taxation and exceptional items), but in each case after deducting minority interests in Subsidiaries; or

(ii) its net assets or (in the case of a Subsidiary of the Guarantor which has Subsidiaries) consolidated net assets attributable to the Guarantor (in each case after deducting minority interests in Subsidiaries) are at least 5 per cent. of the consolidated net assets (after deducting minority interests in Subsidiaries) of the Guarantor and its Subsidiaries;

all as calculated by reference to the then latest audited financial statements (consolidated or, as the case may be, unconsolidated) of the Subsidiary of the Guarantor and the then latest audited financial statements of the Guarantor provided that: (A) in the case of a Subsidiary of the Guarantor acquired after the end of the financial period to which the then latest relevant audited accounts relate, the reference to the then latest audited accounts for the purposes of the calculation above shall, until audited accounts for the financial period in which the acquisition is made are published, be deemed to be a reference to the accounts adjusted to consolidate the latest audited accounts of the Subsidiary in the accounts; (B) if, in the case of a Subsidiary of the Guarantor which itself has one or more Subsidiaries, no consolidated accounts are prepared and audited, its consolidated net assets and consolidated net profits shall be determined on the basis of pro forma consolidated accounts of the relevant Subsidiary and its Subsidiaries prepared for this purpose by the Guarantor; (C) if the accounts of a Subsidiary of the Guarantor (not being a Subsidiary referred to in (A) above) are not consolidated with those of the Guarantor then the determination of whether or not the Subsidiary of the Guarantor is a Principal Subsidiary shall, if the Guarantor requires, be based on a pro forma consolidation of its accounts (consolidated, if appropriate) with the consolidated accounts of the Guarantor and its Subsidiaries; or

(b) to which is transferred all or substantially all of the assets of a Subsidiary of the Guarantor which immediately prior to the transfer was a Principal Subsidiary, provided that, with effect from such transfer, the Subsidiary which so transfers its assets and undertakings shall cease to be a Principal Subsidiary (but without prejudice to paragraph (a) above) and the Subsidiary of the Guarantor to which the assets are so transferred shall become a Principal Subsidiary,

and a certificate of the auditors of the Guarantor as to whether or not a Subsidiary is a Principal Subsidiary shall be conclusive and binding on all parties in the absence of manifest error;

"**Relevant Indebtedness**" means any indebtedness for monies borrowed or raised which is in the form of and/or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is, or is issued with the intention on the part of the issuer thereof that they should be, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market) and have an original maturity of more than one year from its date of issue;

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;

"**Subsidiary**" means, as applied to any Person, any corporation or other entity of which a majority of the outstanding Voting Shares is, at the time, directly or indirectly, owned by such Person; and

"**Voting Shares**" means, with respect to any Person, the Capital Stock having the general voting power under ordinary circumstances to vote on the election of the members of the board of directors or other governing body of such Person (irrespective of whether or not at the time stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency).

4. **Interest**

The Notes bear interest from 17 April 2012 (the "**Issue Date**") at the rate of 5.75 per cent. per annum, (the "**Rate of Interest**") payable semi-annually in arrear on 17 April and 17 October in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 6 (*Payments*).

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable on each Interest Payment Date shall be U.S.$ 5,750 in respect of each Note of U.S.$200,000 denomination and U.S.$28.75 in respect of each Note of U.S.$1,000 denomination. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the Authorised Denomination of such Note divided by the Calculation Amount, where "**Calculation Amount**" means U.S.$1,000 and "**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months).

5. **Redemption and Purchase**

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 17 April 2022 (the "**Maturity Date**"), subject as provided in Condition 6 (*Payments*).

(b) *Redemption for tax reasons*: The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their principal amount, together with interest accrued to the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that:

(i) (A) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 12 April 2012; and (B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or

(ii) (A) the Guarantor has or (if a demand was made under the Guarantee of the Notes) would become obliged to pay additional amounts as provided or referred to in Condition 7 (*Taxation*) or the Guarantee of the Notes, as the case may be or the Guarantor has or becomes obliged to make any such withholding or deduction as is referred to in Condition 7 (*Taxation*) or the Guarantee of the Notes, as the case may be, from any amount paid by it to the Issuer in order to enable the Issuer to make a payment of principal or interest in respect of the Notes, in either case as a result of any change in, or amendment to, the laws or regulations of Hong Kong or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 12 April 2012; and (B) such obligation cannot be avoided by the Guarantor in each case, taking reasonable measures available to it;

provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor would be obliged to pay such additional amounts if a payment in respect of the Notes were then due or (as the case may be) a demand under the Guarantee of the Notes were then made.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer or the Guarantor (as the case may be) shall deliver or procure that there is delivered to the Trustee:

(i) a certificate signed by two directors of the Issuer stating that the circumstances referred to in (i)(A) and (i)(B) above prevail and setting out the details of such circumstances or (as the case may be) a certificate signed by two directors of the Guarantor stating that the circumstances referred to in (ii)(A) and (ii)(B) above prevail and setting out details of such circumstances (each, a "**Certificate**"); and

(ii) an opinion in form and substance satisfactory to the Trustee of independent legal advisers of recognised standing to the effect that the Issuer or (as the case may be) the Guarantor has or will become obliged to pay such additional amounts as a result of such change or amendment (an "**Opinion**").

The Trustee shall be entitled to accept such Certificate and Opinion as sufficient evidence of the satisfaction of the circumstances set out in (i)(A) and (i)(B) or (as the case may be) (ii)(A) and (ii)(B) above, in which event it shall be conclusive and binding on the Noteholders.

Upon the expiry of any such notice as is referred to in this Condition 5(b), the Issuer (failing which, the Guarantor) shall be bound to redeem the Notes in accordance with this Condition 5(b).

(c) *Redemption for Change of Control*: At any time following the occurrence of a Change of Control, the Holder of any Note will have the right, at such Holder's option, to require the Issuer to redeem all but not some only of that Holder's Notes on the Put Settlement Date at 101 per cent. of their principal amount, together with accrued interest up to, but excluding the Put Settlement Date. To exercise such right, the Holder of the relevant Note must deposit at the Specified Office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the Specified Office of any Paying Agent (a "**Put Exercise Notice**"), together with the Note Certificates evidencing the Notes to be redeemed by not later than 60 days following a Change of Control, or, if later, 60 days following the date upon which notice thereof is given to Noteholders by the Issuer in accordance with Condition 15 (*Notices*). The "**Put Settlement Date**" shall be the 14th day after the expiry of such period of 60 days as referred to above.

A Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Notes subject to the Put Exercise Notices delivered as aforesaid.

The Issuer shall give notice to Noteholders and the Trustee in accordance with Condition 15 (*Notices*) by not later than 14 days following the first day on which it becomes aware of the occurrence of a Change of Control, which notice shall specify the procedure for exercise by Holders of their rights to require redemption of the Notes pursuant to this Condition 5(c).

In this Condition 5(c):

a "**Change of Control**" occurs when the Guarantor ceases to be the single largest, direct or indirect, shareholder of HKT Group Holdings Limited.

(d) *Notice of redemption*: All Notes in respect of which any notice of redemption is given under this Condition 5 shall be redeemed on the date specified in such notice in accordance with this Condition 5. If there is more than one notice of redemption given in respect of any Note (which shall include any notice given by the Issuer pursuant to Condition 5(b) (*Redemption for tax reasons*) and any Put Exercise Notice given by a Noteholder pursuant to Condition 5(c) (*Redemption for Change of Control*)) the notice given first in time shall prevail and in the event of two notices being given on the same date, the first to be given.

(e) *No other redemption*: The Issuer shall not be entitled to redeem the Notes otherwise than as provided in Conditions 5(a) (*Scheduled redemption*) to 5(c) (*Redemption for Change of Control*) above.

(f) *Purchase*: The Issuer, the Guarantor or any of their respective Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price.

(g) *Cancellation*: All Notes so redeemed or purchased by the Issuer, the Guarantor or any of their respective Subsidiaries shall be cancelled and may not be reissued or resold.

6. **Payments**

(a) *Principal*: Payments of principal shall be made by U.S. Dollar cheque drawn on, or, upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. Dollar account maintained by the payee with, a bank in New York City and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(b) *Interest*: Payments of interest shall be made by U.S. dollar cheque drawn on, or upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. Dollar account maintained by the payee with, a bank in New York City and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(c) *Payments subject to fiscal laws*: All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) *Payments on business days*: Where payment is to be made by transfer to a U.S. Dollar account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by U.S. Dollar cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day or (B) a cheque mailed in accordance with this Condition 6 arriving after the due date for payment or being lost in the mail. In this paragraph, "**business day**" means any day on which banks are open for general business (including dealings in foreign currencies) in New York City, London and Hong Kong and, in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).

(e) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(f) *Record date*: Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

7. **Taxation**

All payments of principal and interest in respect of the Notes by or on behalf of the Issuer or the Guarantor shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the British Virgin Islands (in the case of the

Issuer) or Hong Kong (in the case of the Guarantor) or any political subdivision thereof or any authority therein or thereof having power to tax ("**Taxes**"), unless the withholding or deduction of such Taxes is required by law or the interpretation or administration thereof. In that event the Issuer or (as the case may be) the Guarantor shall pay such additional amounts ("**Additional Amounts**") as will result in receipt by the Noteholders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable:

(a) in respect of any such Taxes that would not have been imposed, deducted or withheld but for the existence of any connection between the holder or beneficial owner of a Note, as the case may be, the British Virgin Islands or Hong Kong or any political subdivision or any authority thereof or therein or any territory or possession thereof or area subject to its jurisdiction, as the case may be, otherwise than merely holding such Note or receiving principal or interest in respect thereof;

(b) in respect of any Note presented for payment (where presentation is required) more than 30 days after the relevant date, except to the extent that the holder thereof would have been entitled to such Additional Amounts on presenting the same for payment on the last day of such 30-day period. For this purpose, the relevant date in relation to any Note means (i) the due date for payment thereof and (ii) if the full amount payable on such due date has not been received in New York City or Hong Kong by the Principal Paying Agent on or prior to such due date, the first date on which such full amount has been so received and notice to that effect has been given to the holders of the Notes;

(c) in respect of any such Taxes withheld or deducted from any payment under or with respect to any Note: (i) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive or (ii) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another paying agent in a Member State of the European Union;

(d) in respect of any such Taxes payable otherwise than by deduction or withholding from payments under or with respect to any Note;

(e) in respect of any such Taxes that would not have been so imposed, deducted or withheld if the holder or beneficial owner of a Note or the beneficial owner of any payment on such Note had:

    (i) made a declaration of non-residence or any other claim or filing for exemption to which it is entitled; or

    (ii) complied with any certification, identification, information, documentation or other reporting requirement concerning the nationality, residence, identity or connection with the British Virgin Islands or Hong Kong of such holder or beneficial owner of such Note,

    provided that such declaration of non-residence or other claim or filing for exemption or such compliance is required by the applicable law of the British Virgin Islands or Hong Kong as a precondition to exemption from, or reduction in the rate of the imposition, deduction or withholding of, such Taxes; and at least 30 days prior to the first payment date with respect to which such declaration of non-residence or other claim or filing for exemption or such compliance is required under the applicable law of the British Virgin

Islands or Hong Kong, the holder of such Note at that time has been notified by the Issuer, the Guarantor or any other person through whom payment may be made that a declaration of non-residence or other claim or filing for exemption or such compliance is required to be made;

(f) in respect of any payment under or with respect to a Note to any holder that is a fiduciary or partnership or any person other than the sole beneficial owner of such payment, Note, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner of such payment, Note would not have been entitled to such Additional Amounts had such beneficiary, settlor, member or beneficial owner been the actual holder of such Note;

(g) in respect of any estate, inheritance, gift, sales, excise, transfer or personal property tax or similar tax, assessment or governmental charge; or

(h) any combination of items (a) through (g) above.

Any reference in these Conditions to the payment of principal or interest in respect of any Note or in respect of the Guarantee of the Notes shall be deemed to include the payment of Additional Amounts provided for herein to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof pursuant hereto.

The foregoing provisions in this Condition 7 shall apply in the same manner with respect to the jurisdiction in which any successor Person to the Issuer (including any entity substituted in place of the Issuer, or of any previous substituted company, pursuant to Condition 12(c) (*Substitution*)) or the Guarantor is organised or any authority therein or thereof having the power to tax (a "**Successor Jurisdiction**"), substituting such Successor Jurisdiction for the British Virgin Islands or Hong Kong, as the case may be.

8. **Events of Default**

If any of the following events occurs and is continuing, then the Trustee at its discretion may and, if so requested in writing by Holders of at least one-quarter of the aggregate principal amount of the outstanding Notes or if so directed by an Extraordinary Resolution, shall (subject to the Trustee having been indemnified and/or provided with security and/or pre-funded to its satisfaction) give written notice to the Issuer declaring the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality:

(a) *Non-payment of principal*: the Issuer fails to pay principal of any Note within five business days after the due date for such payment; or

(b) *Non-payment of interest*: the Issuer fails to pay interest on any Note within 30 days after the due date for such payment; or

(c) *Breach of other obligations*: the Issuer or the Guarantor defaults in the performance or observance of any of its other obligations under or in respect of the Notes or the Trust Deed and such default continues for 60 days after there has been given, to the Issuer and the Guarantor, by the Trustee a written notice specifying such default and requiring it to be remedied; or

(d) *Guarantee not in force*: the Guarantee of the Notes is not (or is claimed by the Guarantor not to be) in full force and effect; or

(e) *Cross-acceleration*:

(i) the Issuer or the Guarantor fails to pay upon final maturity (after giving effect to the expiration of any applicable grace period therefor) the principal of any Indebtedness of the Issuer, the Guarantor or Hong Kong Telecommunications (HKT) Limited;

(ii) acceleration of the maturity of any Indebtedness of the Issuer, the Guarantor or Hong Kong Telecommunications (HKT) Limited following a default by the Issuer, the Guarantor or Hong Kong Telecommunications (HKT) Limited, if such Indebtedness is not discharged, or such acceleration is not annulled, within 10 days after receipt of the written notice as provided herein;

(iii) the Issuer, the Guarantor or Hong Kong Telecommunications (HKT) Limited fails to pay any amount under any guarantee or indemnity in respect of any Indebtedness of any other Person if such obligation is not discharged or otherwise satisfied within 10 days after receipt of written notice from the Trustee;

provided, however, that no such event set forth in paragraphs (i), (ii) or (iii) above shall constitute an event of default unless the aggregate outstanding Indebtedness to which all such events relate exceeds US$30,000,000 (or its equivalent in any other currency); or

(f) *Insolvency etc.*: a decree or order by a court having jurisdiction is entered under any applicable bankruptcy, insolvency, reorganisation or other similar law:

(a) for relief in respect of the Issuer, the Guarantor or any Principal Subsidiary in an involuntary case of winding up or bankruptcy proceeding under applicable law; or

(b) adjudging the Issuer, the Guarantor or any such Principal Subsidiary bankrupt or insolvent, or seeking reorganisation, winding up, arrangement, adjustment or composition of or in respect of the Issuer, the Guarantor or any Principal Subsidiary under applicable law; or

(c) appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of the Issuer, the Guarantor or any Principal Subsidiary or of any substantial part of any of their properties, or ordering the winding up or liquidation of any of their affairs,

and any such decree or order remains unstayed and in effect for a period of 60 consecutive days; or

(g) *Voluntary arrangements*: the Issuer, the Guarantor or any Principal Subsidiary institutes a voluntary case or proceeding under applicable bankruptcy, insolvency, reorganisation or similar law, or any other case or proceedings to be adjudicated bankrupt or insolvent, or the Issuer, the Guarantor or any Principal Subsidiary files a petition or answer or consent seeking reorganisation or relief under applicable bankruptcy, insolvency, reorganisation or similar law, or consents to the filing of any such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of any of the Issuer, the Guarantor or any Principal Subsidiary or of any substantial part of its property, or makes an assignment for the benefit of creditors, or admits in writing its inability to pay its debts generally as they become due or takes corporate action in furtherance of any such action.

In this Condition 8:

"**business day**" means a day in New York City and Hong Kong other than Saturday, Sunday or a day on which banking institutions in New York City or Hong Kong are authorised or obligated by law or executive order to remained closed; and

"**Indebtedness**" of any Person means any indebtedness for or in respect of money borrowed that has a final maturity of one year or more from its date of incurrence or issuance and that is evidenced by any agreement or other instrument, excluding trade payables; provided, however, that for the purposes of determining the amount of Indebtedness of the Guarantor outstanding at any relevant time the amount included as Indebtedness of the Guarantor in respect of finance leases shall be the net amount from time to time properly characterised as "obligations under finance leases'' in accordance with Hong Kong GAAP.

9. **Prescription**

Claims for principal and interest on redemption shall become void unless the relevant Note Certificates are surrendered for payment within ten years in the case of principal and five years in the case of interest of the appropriate Relevant Date.

10. **Replacement of Note Certificates**

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar having its Specified Office in Singapore, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

11. **Trustee and Agents**

Under the Trust Deed, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and any entity relating to the Issuer or the Guarantor without accounting for any profit.

In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual Holders of Notes as a result of such Holders being connected in any way with a particular territory or taxing jurisdiction.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer, the Guarantor and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The initial Agents and their initial Specified Offices are listed below. The Issuer and the Guarantor reserve the right (having notified the Trustee in writing) at any time to vary or terminate the appointment of any Agent and to appoint a successor registrar principal paying agent, agent bank and additional or successor paying agents; *provided, however, that* the Issuer and the Guarantor shall at all times maintain (a) a principal paying agent and a registrar and (b) a paying agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

12. **Meetings of Noteholders; Modification and Waiver; Substitution**

(a) *Meetings of Noteholders*: The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and the Guarantor (acting together) or by the Trustee and shall be convened by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; *provided, however, that* certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes, to amend the terms of the Guarantee of the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one-quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of holders of not less than 90 per cent. in principal amount of Notes outstanding will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Modification and waiver*: The Trustee may, but shall not be obliged to, without the consent of the Noteholders, agree to any modification of these Conditions, the Notes or the Trust Deed which is:

(i) in the opinion of the Trustee, is a modification which will not be materially prejudicial to the interests of Noteholders (other than in respect of a Reserved Matter); or

(ii) is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, but shall not be obliged to, without the consent of the Noteholders, authorise or waive any proposed breach or breach of the Notes or the Trust Deed (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Unless the Trustee agrees otherwise, any such authorisation, waiver or modification by the Issuer shall be notified to the Noteholders by the Issuer as soon as practicable thereafter.

(c) *Substitution*: The Trust Deed contains provisions under which the Guarantor may, without the consent of the Noteholders, assume the obligations of the Issuer as principal debtor under the Trust Deed and the Notes *provided that* certain conditions specified in the Trust Deed are fulfilled, including, a requirement that the Guarantee of the Notes by the remaining Guarantor is fully effective in relation to the obligations of the new principal debtor under the Trust Deed and the Notes.

No Noteholder shall, in connection with any substitution, be entitled to claim any indemnification or payment in respect of any tax consequence thereof for such Noteholder, except to the extent provided for in Condition 7 (*Taxation*) (or any undertaking given in addition to or substitution for it pursuant to the provisions of the Trust Deed).

13. **Enforcement**

The Trustee may at any time, at its discretion and without notice, institute such proceedings against the Issuer or the Guarantor as it thinks fit to recover any amounts due in respect of the Notes which are unpaid or enforce its rights under the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

(a) it has been so requested in writing by the Holders of at least one-quarter of the aggregate principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and

(b) it has been indemnified and/or provided with security and/or pre-funded to its satisfaction.

No Noteholder may proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

14. **Further Issues**

The Issuer may from time to time, without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the issue date and the first payment of interest) so as to form a single series with the Notes.

15. **Notices**

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

16. **Governing Law and Jurisdiction**

(a) *Governing law*: The Notes and the Trust Deed and any non-contractual obligations arising out of or in connection with the Notes and the Trust Deed are governed by English law.

(b) *Jurisdiction*: Each of the Issuer and the Guarantor has in the Trust Deed (i) agreed for the benefit of the Trustee and the Noteholders that the courts of England shall have non-exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes (including any non-contractual obligation arising out of or in connection with the Notes); (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient; (iii) designated a person in England to accept service of any process on its behalf; (iv) consented to the enforcement of any judgment; and (v) to the extent that it may in any jurisdiction claim for itself or its assets immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process, and to the extent that in any such jurisdiction there may be attributed to itself or its assets or revenues such immunity (whether or not claimed), agreed not to claim and irrevocably waived such immunity to the full extent permitted by the laws of such jurisdiction. The Trust Deed also states that nothing contained in the Trust Deed prevents the Trustee or any of the Noteholders from taking proceedings related to a Dispute ("**Proceedings**") in any other courts with jurisdiction and that, to the extent allowed by law, the Trustee or any of the Noteholders may take concurrent Proceedings in any number of jurisdictions.

THE GLOBAL CERTIFICATE

The Global Certificate contains provisions which apply to the Notes in respect of which the Global Certificate is issued, some of which modify the effect of the terms and conditions of the Notes (the "Conditions" or the "Terms and Conditions") set out in this Offering Circular. Terms defined in the Conditions have the same meaning in the paragraphs below. The following is a summary of those provisions:

The Notes will be represented by a Global Certificate which will be registered in the name of The Bank of New York Depository (Nominees) Limited as nominee for, and deposited with, a common depositary for Euroclear and Clearstream.

Under the Global Certificate, the Issuer, for value received, promises to pay such principal sum to the Holder on 17 April 2022 or on such earlier date or dates as the same may become payable in accordance with the Conditions, and to pay interest on such principal sum in arrear on the dates and at the rate specified in the Conditions, together with any additional amounts payable in accordance with the Conditions, all subject to and in accordance with the Conditions.

The Global Certificate will become exchangeable in whole, but not in part, for individual note certificates ("Individual Note Certificates") if Euroclear or Clearstream is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business.

Whenever the Global Certificate is to be exchanged for Individual Note Certificates, such Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Certificate within five business days of the delivery, by or on behalf of the registered Holder of the Global Certificate, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Certificate at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any Holder or the Trustee, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

In addition, the Global Certificate will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Notes evidenced by the Global Certificate. The following is a summary of certain of those provisions:

Record date: Notwithstanding Condition 6(f) (Record date), so long as the Global Certificate is held on behalf of Euroclear, Clearstream or any other clearing system (an "Alternative Clearing System"), each payment in respect of the Global Certificate will be made to the person shown as the Holder in the Register at the close of business (of the relevant clearing system) on the Clearing System Business Day before the due date for such payments, where "Clearing System Business Day" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.

Notices: Notwithstanding Condition 15 (Notices), so long as the Global Certificate is held on behalf of Euroclear, Clearstream or an Alternative Clearing System, notices to Holders of Notes represented by the Global Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream or (as the case may be) such Alternative Clearing System.

Determination of entitlement: The Global Certificate is evidence of entitlement only and is not a document of title. Entitlements are determined by the Register and only the Holder is entitled to payment in respect of the Global Certificate.

EXCHANGE RATES

The Hong Kong dollar is freely convertible into other currencies (including the U.S. dollar).

Since 17 October 1983, the Hong Kong dollar has been pegged to the U.S. dollar at the rate of HK$7.80 to U.S.$1.00. The central element in the arrangement which gave effect to this peg is that, by agreement between the Hong Kong Government and the three Hong Kong banks that issue Hong Kong dollar banknotes, The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank and Bank of China (Hong Kong) Limited, certificates of indebtedness (which are issued by the Hong Kong Government Exchange Fund to the banknote issuing banks to be held as cover for their banknote issue) are issued and redeemed only against payment in U.S. dollars, at the fixed exchange rate of U.S.$1.00 to HK$7.80. When banknotes are withdrawn from circulation, the banknote issuing banks surrender the certificates of indebtedness to the Hong Kong Government Exchange Fund and are paid the equivalent amount of U.S. dollars at the fixed rate of exchange.

The market exchange rate of the Hong Kong dollar against the U.S. dollar continued to be determined by the forces of supply and demand in the foreign exchange market. In light of the fixed rate for the issue of Hong Kong currency in the form of banknotes, as described above, the market exchange rate has not deviated significantly from the level of HK$7.80 to U.S.$1.00 since 17 October 1983. In May 2005, the Hong Kong Monetary Authority broadened the 22-year old trading band from the original rate of HK$7.80 per U.S. dollar to a rate range of HK$7.75 to HK$7.85 per U.S. dollar.

The Hong Kong Government has stated its intention to maintain the link at that rate, and it, acting through the Hong Kong Monetary Authority, has a number of means by which it may act to maintain exchange rate stability. Under the Basic Law, the Hong Kong dollar will continue to circulate and remain freely convertible. The Hong Kong Government has also stated that it has no intention of imposing exchange controls in Hong Kong and that the Hong Kong dollar will remain freely convertible into other currencies, including the U.S. dollar. However, no assurance can be given that the Hong Kong Government will maintain the link within the range of HK$7.75 to HK$7.85 per U.S. dollar or at all, or will not in the future impose exchange controls. Exchange rates between the Hong Kong dollar and other currencies are influenced by the exchange rate between the U.S. dollar and such currencies.

During the general economic downturn in Asia in 1998, however, the Hong Kong Government intervened on several occasions in the foreign exchange market by purchasing Hong Kong dollars and selling U.S. dollars to support the value of the Hong Kong dollar.

The following table sets forth the average, high, low and period-end exchange rates between the Hong Kong dollar and the U.S. dollar (in HK$ per U.S.$1.00) at the noon buying rate in New York City for cable transfers in foreign currencies for the periods indicated (the Noon Buying Rate).

	Hong Kong Dollars/U.S. Dollars Noon Buying Rate			
Year Ended 31 December	**Low**	**Average[1]**	**High**	**Period-End**
2008	7.7497	7.7862	7.8159	7.7499
2009	7.7399	7.7514	7.7618	7.7536
2010	7.7501	7.7686	7.8040	7.7810
2011	7.7634	7.7841	7.8087	7.7663
2012 (as at 23 March 2012)	7.7532	7.7591	7.7678	7.7678

Note:

(1) Determined by averaging the rates on each business day during the relevant period.

DESCRIPTION OF THE ISSUER

The Issuer, a direct wholly-owned subsidiary of PCCW, was incorporated as a company with limited liability under the laws of the British Virgin Islands on 20 March 2012. Its registered office is located at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. The Issuer, whose primary purpose is to act as a financing subsidiary of the Group, will remain a direct wholly-owned subsidiary of PCCW as long as the Notes are outstanding and will advance the net proceeds of the Notes to other members of the Group. The Issuer has no material assets, and since its incorporation has not conducted and will not conduct any business, except relating to the offering, sale and issuance of indebtedness and the lending of the proceeds thereof to members of the Group and any other activities in connection therewith.

The directors of the Issuer are Chan Ching Cheong, George and Hui Hon Hing, Susanna. The Issuer does not have any executive officers.

The authorised share capital of the Issuer is U.S.$50,000 divided into 50,000 ordinary shares of U.S.$1 par value each. No part of the equity securities of the Issuer is listed or dealt on any stock exchange and no listing or permission to deal in such securities is being or is proposed to be sought. The Issuer does not have any debt outstanding. The Issuer has no subsidiaries.

The Issuer has not audited or published, and does not propose to audit or publish, any of its accounts since it is not required to do so under the laws of the British Virgin Islands. However, the Issuer is required to keep such accounts and records as the directors consider necessary or desirable in order to reflect the financial position of the Issuer.

CAPITALISATION AND EXTERNAL INDEBTEDNESS

Capitalisation and External Indebtedness of the Guarantor

The following table sets forth on an actual basis of the consolidated capitalisation and external indebtedness of PCCW as at 31 December 2011, and as adjusted to give effect to (i) the Notes being offered, (ii) the drawdown of bank loans of HK$200 million and HK$683 million in February 2012 and in March 2012 respectively, (iii) the repayment of bank loans of HK$200 million and HK$593 million in February 2012 and in March 2012 respectively and (iv) the repayment of bank loans of RMB2.5 million in March 2012.

	As at 31 December 2011			
	Actual		As Adjusted	
	(HK$ million)	(U.S.$ million)[2]	(HK$ million)	(U.S.$ million)[2]
Short-term debt:				
Bank loans	40	5	37	5
Long-term debt:				
Bank loans[1]	11,743	1,512	11,833	1,524
6.00% Guaranteed Notes due 2013	3,881	500	3,881	500
5.25% Guaranteed Notes due 2015	3,867	498	3,867	498
4.25% Guaranteed Notes due 2016	3,979	512	3,979	512
The Notes offered hereby	—	—	2,330	300
Total debts	23,510[4]	3,027	25,927	3,339
Capital and reserves:				
Share capital	1,818	234	1,818	234
Reserves	4,286	552	4,286	552
Shareholder's equity	6,104	786	6,104	786
Total capitalisation and external indebtedness[3]	29,614	3,813	32,031	4,125

Notes:

(1) Save for the adjustment events above (together with amortization of front-end expenses in relation thereto), there has been no material change in the external indebtedness of the Group since 31 December 2011.

(2) A rate of HK$7.7663 to U.S.$1.00 (as at 31 December 2011) was adopted for the conversion of HK dollar to U.S. dollar.

(3) Total capitalisation and external indebtedness represents shareholder's equity plus total debts.

(4) Total debts of HK$23,510 million as at 31 December 2011 comprised HK$23,501 million of debts of the HKT Group and HK$9 million of debts of the PCPD Group.

DESCRIPTION OF THE GUARANTOR AND THE GROUP

OVERVIEW

PCCW, whose shares are listed on The Stock Exchange of Hong Kong Limited (stock code: 0008) and traded in the form of American Depositary Receipts (ADRs) on the OTC Markets Group Inc. in the U.S. (Ticker: PCCWY), is a Hong Kong incorporated and based company which holds interests in telecommunications, media, IT solutions, property development and investment, and other businesses.

PCCW holds a majority interest of approximately 65.54%[1] in the HKT Trust and HKT, Hong Kong's premier telecommunications service provider. HKT offers a wide range of products and services to meet the needs of the Hong Kong public and local and international businesses including local telephony, local data and broadband, international telecommunications, mobile, and other telecommunications businesses such as customer premises equipment sale, outsourcing, consulting, and contact centres.

PCCW also owns a fully integrated multimedia and entertainment group in Hong Kong, which includes its successful IPTV operation, now TV. As the provider of Hong Kong's first quadruple-play experience, PCCW offers a range of innovative media content and services across four delivery platforms — fixed-line, broadband Internet access, television and mobile.

The Solutions Business is wholly-owned by the Group and a leading information technology outsourcing and business process outsourcing provider in Hong Kong and the PRC.

In addition, PCCW holds a majority interest of approximately 61.53% in PCPD, and overseas investments including the wholly-owned UKBB.

Employing approximately 20,100 staff, PCCW maintains a presence in Hong Kong, the PRC as well as other parts of the world.

The Group primarily operates through five business segments: the Telecommunications Business, Media Business, Solutions Business, PCPD and other businesses:

- Telecommunications Business: provides telecommunications products and services primarily in Hong Kong. Its offerings include local telephony, local data and broadband, international telecommunications, mobile, and other telecommunications businesses such as customer premises equipment sale, outsourcing, consulting, and contact centres.

- Media Business: the Group's television and "new media" operations, which include the operation and business development of "now TV", Hong Kong's largest pay-TV provider by number of subscribers, the online business of now.com.hk and the related advertising and interactive businesses that include YP (Yellow Pages) directories.

- Solutions Business: offers information technology outsourcing and business process outsourcing services in Hong Kong and the PRC.

- PCPD: PCCW has an approximate 61.53% stake in PCPD which invests in, and develops, infrastructure and properties in Hong Kong, the PRC and elsewhere in the Asia Pacific region.

- Other businesses primarily comprise the Group's corporate support functions and the wholly-owned UKBB.

With growth across the Telecommunications Business, the Media Business and the Solutions Business, PCCW reported core revenue (revenue of the Group except PCPD) increase of 5% to HK$22,512 million for the year ended 31 December 2011, from HK$21,467 million for the year ended

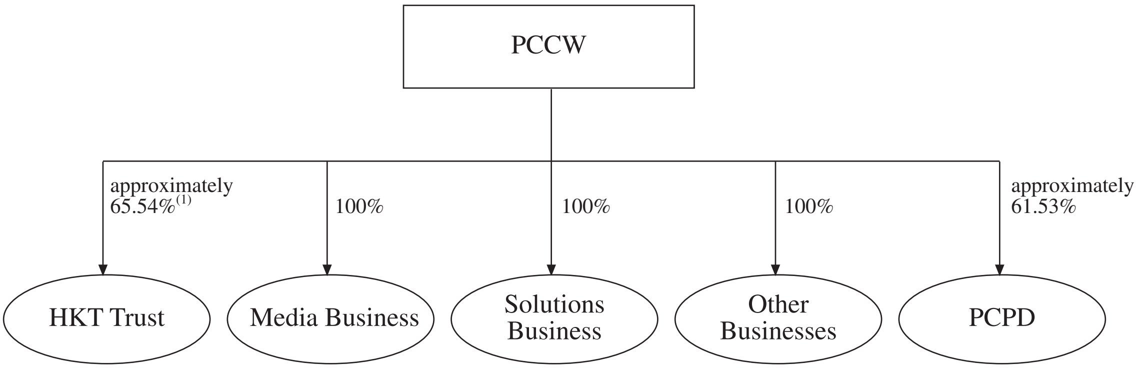
(1) PCCW's interest in the HKT Trust and HKT Limited is currently approximately 65.54% and the Group continues to control the HKT Group. After a second distribution in specie of Share Stapled Units to shareholders of PCCW which will occur in May 2012, the stake of PCCW in the HKT Trust and HKT Limited will be approximately 63%.

31 December 2010. Core EBITDA (EBITDA of the Group except PCPD) increased by 3% to HK$7,252 million for the year ended 31 December 2011 compared to HK$7,069 million for the year ended 31 December 2010. The strong performance lifted core business earnings by 11% to HK$1,588 million for the year ended 31 December 2011 compared to HK$1,429 million for the year ended 31 December 2010.

Revenue and EBITDA contributions from PCPD were higher at HK$2,126 million and HK$333 million, respectively, for the year ended 31 December 2011, compared with HK$1,495 million and HK$284 million, respectively, for the year ended 31 December 2010. Consolidated revenue for the year ended 31 December 2011, therefore, increased by 7% to HK$24,638 million, while consolidated EBITDA increased by 3% to HK$7,585 million, compared with HK$22,962 million and HK$7,353 million, respectively, for the year ended 31 December 2010. Consolidated profit attributable to equity holders of PCCW was HK$l,607 million for the year ended 31 December 2011, compared with HK$1,926 million for the year ended 31 December 2010. Basic earnings per share was 22.10 HK cents for the year ended 31 December 2011.

STRUCTURE OF THE GROUP

Simplified Corporate Structure



Restructuring of the Telecommunications Business

In November 2011, the Telecommunications Business of PCCW was spun off and separately listed on The Stock Exchange of Hong Kong Limited (the "HKT Global Offering") in the form of Share Stapled Units of HKT and the HKT Trust. The sale of the minority stake in HKT and the HKT Trust generated net proceeds of approximately HK$8,684 million, of which HK$7,800 million was used to pay down debt.

The HKT Global Offering has enabled PCCW to better identify and establish the fair value of the Telecommunications Business, whilst retaining the higher growth potential Media and Solutions Businesses as wholly-owned subsidiaries. Following the HKT Global Offering, PCCW has retained control of HKT and the stable cashflow generating characteristics of HKT and its businesses. In addition to paying down debt, the implementation of the fixed single investment trust structure has enabled PCCW to maximise the returns from HKT, as 100% of the HKT Trust's cashflows from dividends, other distributions and any other amounts received (in each case net of applicable taxes and expenses) by the HKT Trust from the HKT Group, after such cashflows have been applied to pay the operating expenses of the HKT Trust, including the Trustee-Manager's expenses, are required to be distributed to the registered holders of Share Stapled Units.

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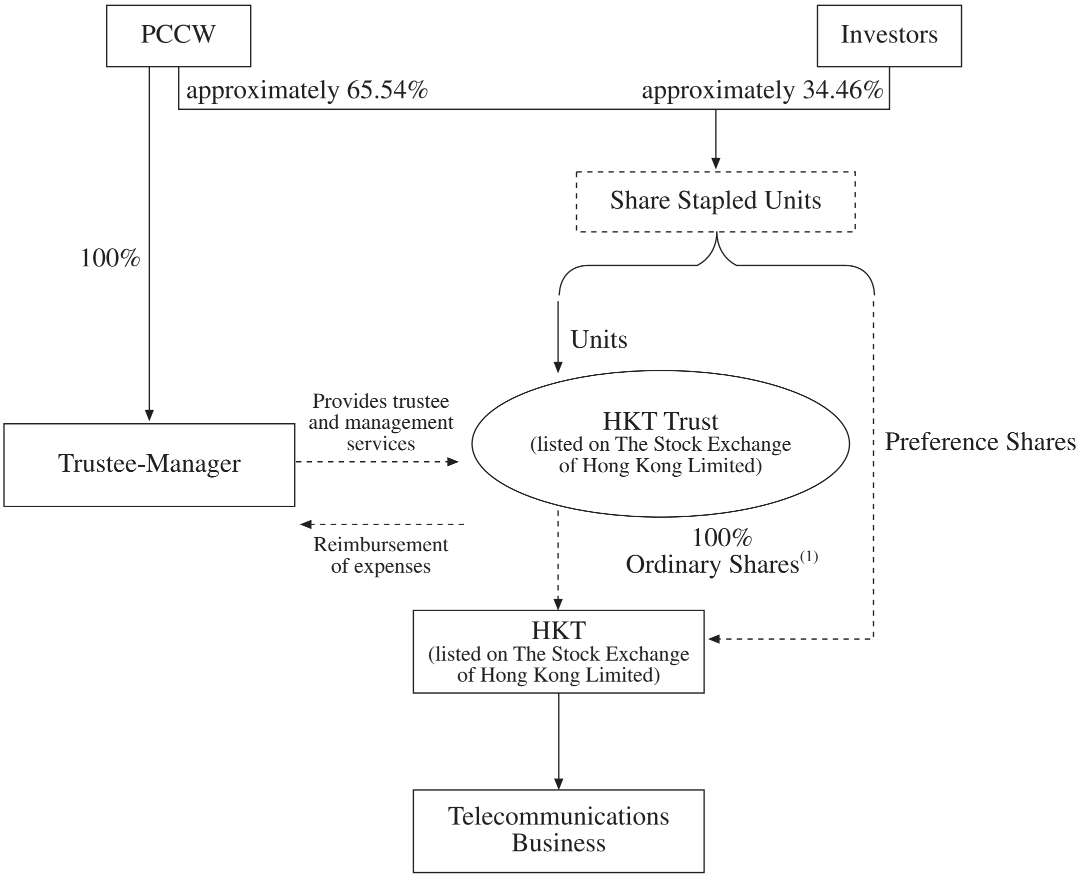
(1) PCCW's interest in the HKT Trust and HKT Limited is currently approximately 65.54% and the Group continues to control the HKT Group. After a second distribution in specie of Share Stapled Units to shareholders of PCCW which will occur in May 2012, the stake of PCCW in the HKT Trust and HKT Limited will be approximately 63%.

In the new structure, the Telecommunications Business is organised as described in the below chart. It is lodged within a new holding company, HKT, whose shares are held by a fixed single investment trust, denominated the HKT Trust, and constituted by the HKT Trust Deed. The Trustee-Manager has legal ownership of the assets of the HKT Trust and holds those assets on trust for the registered holders of Units in the HKT Trust; at the date hereof, it is a wholly-owned subsidiary of PCCW.



Note:

(1) As the HKT Trust is not a separate legal entity, all of the HKT Trust property, being the assets of the HKT Trust, will be held by the Trustee-Manager for the benefit of the registered holders of Units. All of the issued ordinary shares of HKT must be registered in the name of the Trustee-Manager in its capacity as trustee-manager of the HKT Trust.

The Share Stapled Units offered as part of the HKT Global Offering are jointly issued by the HKT Trust and HKT and comprise three components: (i) a Unit, (ii) the beneficial interest in a specifically identified ordinary share in HKT held by the Trustee-Manager, which is "Linked" to the Unit; and (iii) a specifically identified preference share in HKT which is "Stapled" to the Unit.

PCCW continues to hold a majority interest in the Telecommunications Business. PCCW's interest in the HKT Trust and the HKT Group is currently approximately 65.54% and the Group continues to control the HKT Group. Accordingly, the Group continues to consolidate the results and assets and liabilities of the HKT Group. After a second distribution proposed to take place in May 2012 of a special dividend to shareholders of PCCW taking the form of a distribution in specie of Share Stapled Units, the stake of PCCW in the HKT Trust and HKT Group will be approximately 63%.

As a result of the dilution of interest in the HKT Group, the Group received net proceeds of approximately HK$8,684 million from the HKT Global Offering. As a result, the Group recognised a gain of HK$10,104 million to equity.

Distribution policy

The HKT Trust Deed requires the HKT Trust to distribute 100% of its cash flows from dividends, other distributions and any other amounts received (in each case, net of applicable taxes and expenses) by the HKT Trust from the HKT Group, after such cash flows have been applied to pay the operating expenses of the HKT Trust, including the Trustee-Manager's expenses.

The distributions received by the HKT Trust from the HKT Group will come from the HKT Group's Annual Adjusted Funds Flow, after adjusting for potential debt repayment, if required, for each financial year. The HKT Group's Annual Adjusted Funds Flow is an amount derived from HKT's annual financial results only. The HKT Trust Deed and HKT's articles state the current intention of HKT's directors to declare and distribute 100% of the HKT Group's Annual Adjusted Funds Flow, after adjusting for potential debt repayment, if required, for each financial year, to the HKT Trust to fund distributions in respect of the Share Stapled Units to be made by the HKT Trust.

It is the current intention of HKT's directors that the HKT Group will declare and make distributions to the HKT Trust on a semi-annual basis, with the interim and final distributions in respect of a full financial year being equal, in aggregate, to 100% of the HKT Group's Annual Adjusted Funds Flow in respect of the relevant financial year, after adjusting for potential debt repayment, if required, in respect of that financial year.

HKT may declare and make distributions to the HKT Trust out of HKT's available funds and not only out of accounting profits. Subsidiaries of HKT may upstream amounts, by a combination of distributions from distributable reserves and inter-company loans, to fund distributions by HKT. HKT may make distributions out of its distributable reserves (including share premium) to the HKT Trust which in turn is required under the HKT Trust Deed to make distributions to the registered holders of Share Stapled Units.

Annual Adjusted Funds Flow for the year ended 31 December 2011 reached HK$2,387 million, an increase of 18% over the year ended 31 December 2010 and again above the forecast of HK$2,356 million. Annual Adjusted Funds Flow per Share Stapled Unit was 37.20 HK cents. The HKT directors expect that, in the absence of unforeseen circumstances, total distributions to registered holders of Share Stapled Units of not less than HK$2,574 million will be declared and paid in respect of the financial year ending 31 December 2012.

COMPETITIVE STRENGTHS OF THE GROUP

The Group believes that the following are its principal competitive strengths:

The Group has a leading position and brand across the Telecommunications, Media and Solutions Businesses

The Group believes that its products and services have a reputation for quality and reliability and enjoy a high level of brand recognition among its customers. The Group's extensive set of high-quality services, its strong brands and customer affinity across its Telecommunications, Media and Solutions Businesses allow the Group to achieve continued growth. The Group's investments in advanced network services and products have supported Hong Kong's development as one of the leading telecommunications centres in Asia. Quality and reliability are especially important to multinational corporations, banks and other corporate customers needing the Group's services to support their critical operations.

PCCW holds a majority interest in the HKT Trust and HKT, Hong Kong's premier telecommunications service provider

The HKT Group is the leading integrated telecommunications service provider in Hong Kong. The HKT Group's telecommunications network is the most extensive digital network in Hong Kong by total number of exchange lines base, number of mobile subscribers and broadband access lines market share. As at 31 December 2011, the HKT Group had in service approximately 2.6 million exchange lines and approximately 1.5 million total broadband access lines.

This leading position is attributed to the HKT Group's long and established track record for high quality customer service, extensive coverage and advanced technology offerings to customers in Hong Kong. Such advanced technology offerings include the PCCW eye2 which enables users to make video and voice calls as well as choose from more than 100 types of infotainment and interactive services wirelessly around the home through a Wi-Fi enabled portable device.

The Telecommunications Business is resilient and profitable with strong cash flow generation

The HKT Group is characterised by strong and stable cash flows and has demonstrated its resilience, such as during the global financial crisis in 2009. The HKT Group generated relatively stable EBITDA in each of the years ended 31 December 2009, 2010 and 2011 of approximately HK$7,263 million, HK$7,249 million and HK$7,411 million, respectively, while its EBITDA margins in each of the years ended 31 December 2009, 2010 and 2011 were approximately 40.5%, 39.1% and 37.4%, respectively.

The HKT Group's strong cash flow position is also supported by (i) the fact that the current capital expenditure requirements in expanding its infrastructure to support additional users is generally driven by demand for its services; and (ii) the increased availability of new Smartphone devices and the increased popularity of such devices have driven demand for mobile data services.

The Group has a strong balance sheet

The Group's balance sheet has been strengthened following the substantial deleveraging of US$1.5 billion in 2011 with funds raised from the listing of HKT and from internal cash resources. As at the date of this Offering Circular, PCCW (excluding the HKT Group and the PCPD Group) is debt free and will benefit from recurrent cash distribution from HKT.

The Group continuously invests in new and emerging media and telecommunications technologies

The Group believes the HKT Group has long-term growth prospects given the strong growth and the continuous development expected of the mobile telecommunications and broadband market. Consumers today are not only seeking basic connectivity at home or the office for e-mail and Internet surfing, but are also seeking faster Internet access speeds and uninterrupted mobile data connectivity. The HKT Group is well positioned to capture the strong growth in the mobile and broadband data markets by providing increasingly high speed and stable mobile connectivity to meet customer needs. The HKT Group currently offers an extensive selection of speeds and mobility options to its customers. Specifically, it offers ADSL, VDSL, and FTTx technologies to support speeds ranging from 1.5 Mbps to over 1,000 Mbps. In 2010, the HKT Group became the first telecommunications provider in Hong Kong to announce the readiness of a 42M DC-HSPA+ fibre mobile broadband network. This advanced technology, called the PCCW NextGen Network, will allow customers to experience faster Internet access through their mobile devices. The HKT Group currently also offers the NETVIGATOR Home Wireless and PCCW Wi-Fi services, as well as NETVIGATOR Pocket Wi-Fi, and the NETVIGATOR Everywhere services that provide download speeds of up to 42 Mbps.

The Group offers to its clients comprehensive delivery platforms

The Group offers telecommunications and media services that can be delivered and accessed through four complementary delivery platforms: fixed-line, broadband, mobile and IPTV. The symbiotic relationship between the HKT Group and other members of the Group allows the Group to capture the synergies of the inter-play between the four services.

The Group believes that its quadruple-play delivery platforms help increase customer stickiness and effectively enable the Group to retain its subscriber base and be highly resilient to competition. The Group believes that it is also less susceptible to pricing pressures across its businesses due to its quadruple-play delivery platforms.

The Solutions Business has developed capabilities in complex, mission-critical projects and comprehensive end-to-end services and enjoys a leadership position in the IT services industry in Hong Kong and the PRC

The Solutions Business has a strong, proven platform that leverages its core capabilities to identify, penetrate, and seamlessly implement large-scale projects while continuously maintaining a competitive cost structure. It has been involved in several projects that have been highly beneficial to the development of various companies and also the development of Hong Kong's infrastructure. It is the largest professional IT services provider in Hong Kong and the second largest professional IT services provider in Hong Kong and the PRC combined.

The Outsourcing and Managed Services ("OMS") business in Hong Kong intends to double its data centre capacity by square footage between 2011 and 2013 to meet the rising demand for its services, and address the demand for high-power density and Tier-3+ data centres from global financial service institutions, multi-national corporations and IT companies. It is also proposing to expand its managed services and application management business by building on the strong foundation of its existing data centre business.

Furthermore, in the System Solutions Development and Integration ("SSDI") business, the Solutions Business' strategy is to capitalise on, and leverage, existing outsourced development centres and project delivery models to capture large scale systems projects in Hong Kong and to replicate proven solutions to new clients in the PRC.

The Technical Services and Infrastructure Solutions ("TSIS") business similarly plans to replicate proven solutions across fast-growing areas, while maintaining its operational efficiency and project team development model to drive margin enhancement, and in particular, apart from recurring technical operation outsourcing, the growth in revenue is expected to be driven by (i) projection and LED display systems, (ii) extra low voltage systems, and (iii) control and monitoring systems.

The Business Process Outsourcing and Logistics ("BPOL") business will continue to drive business process outsourcings services such as data conversion, after sale services, client management, document management, logistics management and supply chain solutions. It has formed a strategic partnership with the Hong Kong branch of a global industry organisation that focuses on improving supply chain efficiency, to jointly promote the increase in radio-frequency-identification ("RFID") technologies adoption and provide a track-and-trace platform as a service that enhances efficient operations of a supply chain.

The Group has an experienced management team with significant operational expertise

The Group has a management team with extensive and diverse experience in both the development and delivery of telecommunications services, as well as in transaction management and execution of business strategies. Despite operating in one of Asia's most deregulated telecommunications markets, the Group has successfully expanded its offering of products and services while simultaneously improving the productivity of its network operations. The Group believes that the synergies created by its management experience, technical expertise and advanced technology should enable it to move more quickly than its competitors to identify, adopt, acquire, develop and exploit emerging technologies.

BUSINESS STRATEGY OF THE GROUP

The Group's strategy revolves around the following key initiatives:

Expanding and focusing on the Media and Solutions Businesses

PCCW intends to crystallise the value of the growth businesses through increasing visibility and additional funding. The Media Business and the Solutions Business will continue to drive the future operations of PCCW. PCCW intends to establish a strategic priority around growing the Media Business for it to become the leading interactive media platform operator, providing compelling content through in-house production and aggregation, delivered through multiple strategies including IPTV and the Internet. In addition, the Solutions Business has established itself as a premier outsourcing and managed services, system solutions development and integration, technical services and infrastructure solutions and business process outsourcing and logistics provider in Hong Kong, and plans to expand geographically by building its presence in the PRC.

With the increasing popularity of new media platforms such as online video services and mobile media in the PRC, it is expected that there will be significant demand for quality media content, as well as expertise in data traffic management and integration in the region. PCCW is well-positioned to capture this growing demand, as it believes that few competitors are able to replicate its expertise, brand recognition and ability to create unique interactive content in both segments.

With increasing demand for such IT expertise, the Solutions Business is well-positioned and well-qualified to expand in Hong Kong and in the PRC, and to leverage its strong market recognition and scale to capture opportunities within the region and deliver unique solutions to clients.

Ensuring disciplined growth in Media and Solutions Businesses

The Group intends to maintain a disciplined approach in managing the growth of its Media and Solutions Businesses.

The Media Business is the leader in the Hong Kong pay-TV market, offering more than 180 television channels, video-on-demand and new media content services, and premium exclusive content. The Media Business had an encouraging financial performance in 2011, achieved in part through the expansion of now TV's installed subscriber base. The Media Business will continue to manage its growth by adopting a disciplined approach in actively assessing the premium content and media services being offered to subscribers and adjusting such content or services where appropriate.

As a leading IT service provider in Hong Kong and the PRC, the Solutions Business has built a profitable and sustainable business by winning large-scale, long-term projects and ensuring stable recurring revenue streams. The Solutions Business will continue to maintain its deep long-term relationships with the clients to maintain its existing stable revenue stream. Further, the Solutions Business is a forerunner in the provision of a full spectrum of cloud computing services and the Solutions is able to meet the fast expanding cloud computing needs of its clients. The Solutions Business intends to continue to capture further growth from the increasing demand for cloud computing-related and data centre services.

Maintaining its position in the Telecommunications Business

As the Telecommunications Business represents an important strategic asset of PCCW, PCCW intends to hold its investment in the HKT Trust and HKT on a long-term basis. There is no plan for PCCW to hold such an investment for a specific minimum period, and will retain the control of the HKT Trust and HKT on a long-term basis.

Building on the success of its transformation strategy implemented since 2003, which has transformed the Group from a pure telecommunications service provider to one which provides many forms of content, applications and interactive transactional services, the Group will continue to market actively its innovative and appealing services. The Group intends to capitalise on its "quadruple-play" delivery platforms to provide customers a wide, appealing and innovative range of services, to increase its ARPU and market shares for broadband, fixed-line and mobile services as well as to increase efficiencies in its overall field and operations workforce.

Broadening the range of products and services offered

The Group, through HKT, plans to continue to innovate and broaden its existing high quality product offering by focusing on data-related products and value-added services with the objective of increasing customer loyalty and stickiness and increasing ARPU.

The Group, through HKT, also intends to expand its data services offerings through providing plans with increased speed and mobility.

Focusing on cost control and efficiency measures

The Group will continue to focus on reducing costs, optimising efficiency and increasing productivity across its businesses. For example, the Group will continue to look for areas where cost efficiencies can be gained, such as engaging in dialogue with its suppliers to revisit maintenance contracts to reduce costs.

BUSINESS SEGMENTS

The segment revenue and EBITDA for each of the Group's business segments for the years ended 31 December 2010 and 2011 were as follows:

	For the year ended 31 December 2010		For the year ended 31 December 2011	
Business Segment	**Segment Revenue**	**Segment EBITDA**	**Segment Revenue**	**Segment EBITDA**
	(HK$ million)	**(HK$ million)**	**(HK$ million)**	**(HK$ million)**
Telecommunications Business	18,527	7,249	19,825	7,411
Media Business	2,383	232	2,707	631
Solutions Business	2,039	284	2,209	383
Property Business	1,495	284	2,126	333
Other Businesses and Eliminations	(1,482)	(696)	(2,229)	(1,173)
	22,962	7,353	24,638	7,585

1. Telecommunications Business

Telecommunications Business revenue for the years ended 31 December 2010 and 31 December 2011 was approximately HK$18,527 million and HK$19,825 million, respectively, which accounted for approximately 80.7% and 80.5% of Group's turnover, respectively. The HKT Group provides four core areas of products and services: local telephony services, local data and broadband services, international telecommunications services, and other services.

The HKT Group's financial results for the years ended 31 December 2010 and 31 December 2011 were as follows:

For the year ended 31 December	**2010**	**2011**	**Increase**
	(HK$ million)		**y-o-y**
HKT Revenue	18,527	19,825	7%
HKT EBITDA	7,249	7,411	2%
HKT EBITDA margin	39%	37%	

For the year ended 31 December 2011, the HKT Group's revenue increased 7% to HK$19,825 million compared to HK$18,527 million for the year ended 31 December 2010. The increase in revenue was mainly attributable to significant growth in the local data business with the full rollout of fibre broadband, growing demand for international telecommunications services, and an impressive performance from the mobile business. Mobile data revenue in particular was boosted by the rapidly increasing popularity of Smartphones and tablets, as the HKT Group recorded an enlarged 3G subscriber base with a higher ARPU.

The HKT Group's EBITDA for the year ended 31 December 2011 was HK$7,411 million, increasing by 2% from HK$7,249 million for the year ended 31 December 2010. The growth in EBITDA was substantially contributed by the mobile segment, which benefited from the lower incremental operating costs due to efficiencies of its integrated network.

Annual Adjusted Funds Flow for the year ended 31 December 2011 reached HK$2,387 million. Annual Adjusted Funds Flow per Share Stapled Unit was 37.20 HK cents.

- **Local telephony services**

The HKT Group's local telephony services consist of fixed-line local telecommunications services, multimedia services and wholesale interconnection services provided to other telecommunications carriers and service providers. Local telephony services revenues for the years ended 31 December 2010 and 31 December 2011 were approximately HK$3,600 million and HK$3,397 million, respectively, and accounted for approximately 19.4% and 17.1% of the HKT Group's turnover, respectively. The HKT Group's total exchange lines in service as at 31 December 2010 and 31 December 2011 remained at approximately 2.6 million and 2.6 million, respectively, despite lower demand for business lines immediately following the economic downturn in 2008 and 2009. This was primarily because the number of residential exchange lines remained at approximately the same level as in 2008 and 2009, as the "PCCW eye Multimedia Service" generated strong demand. In June 2009, the HKT Group launched the PCCW eye2 which enabled users to make video and voice calls as well as choose from more than 100 types of infotainment and interactive services wirelessly around the home through a Wi-Fi enabled portable device. PCCW eye Multimedia Services is the de facto fixed-line phone for new line services in Hong Kong. The services related to such devices carry a higher ARPU than traditional residential fixed-line telecommunication services.

	As at 31 December	
	2010	**2011**
Exchange lines in service ('000)	2,590	2,636
Business lines ('000)	1,183	1,228
Residential lines ('000)	1,407	1,408

- **Local data and broadband services**

The HKT Group's local data services consist primarily of data transmission services such as private or virtual private IP network services for private and public sector organisations, and business and residential local broadband services in Hong Kong through the "NETVIGATOR" brand. The HKT Group offers commercial customers a broad portfolio of data connectivity services addressing the requirements of each enterprise's business applications.

The broadband services provide broadband users with a choice of Internet access speeds, with additional value-added services. NETVIGATOR broadband users can also stay connected to the Internet at anytime and anywhere via NETVIGATOR Home Wireless, with over 9,500 Wi-Fi hotspots throughout Hong Kong operated by the HKT Group under the NETVIGATOR Everywhere brand, which is an integrated wireless solution interconnecting Wi-Fi and mobile broadband networks. In addition, to cater for increasing consumer demand in mobile broadband services, in August 2009, the

HKT Group launched NETVIGATOR Pocket Wi-Fi, a mobile broadband service that enables customers to simultaneously connect up to five Wi-Fi-enabled devices with high speed Internet access under a single plan. Local data services revenues were approximately HK$5,270 million and HK$5,680 million, representing approximately 28.4% and 28.7% of the HKT Group's turnover for the years ended 31 December 2010 and 31 December 2011, respectively. Despite the effects of the global financial crisis on the economic environment in Hong Kong, the number of the HKT Group's total broadband access lines in service remained relatively stable at approximately 1.4 million and 1.5 million as at 31 December 2010 and 31 December 2011, respectively, while the total contracted bandwidth for local data services increased to 1,045 Gbps as at 31 December 2010 and 1,501 Gbps as at 31 December 2011, respectively.

	As at 31 December	
	2010	**2011**
Broadband access lines ('000)	1,367	1,518
Retail consumer broadband subscribers ('000)	1,215	1,363
Retail business broadband subscribers ('000)	115	119
Traditional data (Exit Gbps)[1]	1,045	1,501

Notes:

(1) Based on the capacity in service as at the end of the relevant year.

In the third quarter of 2011, the HKT Group launched a new consumer cloud service known as "uHub". A user may keep photos, music, videos and documents in the uHub and retrieve them anytime using a variety of devices including computers, Smartphones and tablets.

- **International telecommunications services**

The HKT Group's international telecommunications services consist primarily of wholesale and retail international services to multinational enterprises and telecommunications service providers which include: IP solutions (IPv6-enabled), IP MPLS VPN services, fibre and satellite transmission solutions, voice, data and video services and managed network services and transmission solutions as well as CDNs for content delivery. With offices around the world and other business partnerships and network interconnection relationships, the Group's network currently provides connectivity in approximately 1,600 cities in 120 countries and serves enterprises and wholesale markets in Europe, the Americas, Africa, the Middle East and Asia. The HKT Group also provides IDD calling services, operator assisted overseas calls and calling card services to both business and residential customers in Hong Kong. Retail IDD totalled 1,326 million minutes and 1,209 million minutes for the years ended 31 December 2010 and 31 December 2011, respectively. International telecommunications services revenues were approximately HK$3,714 million and HK$4,199 million which accounted for approximately 20.0% and 21.2% of the HKT Group's turnover for the years ended 31 December 2010 and 31 December 2011, respectively.

- **Mobile services**

The HKT Group offers 2G, 3G and CDMA mobile services which are marketed under the "PCCW mobile" brand. The HKT Group has invested significantly in expanding its 3G network since 2005. In addition, a jointly controlled company of the HKT Group holds a licence from OFTA, which will enable the HKT Group to provide next generation high speed 4G mobile data services in the future.

The increased availability of Smartphones and other wireless devices has had a positive impact on the demand for mobile data service. The HKT Group has actively developed a suite of applications for Smartphones to enhance user experience. The HKT Group provides support for a broad spectrum of Smartphones and has implemented tariff plans to drive continued growth of its 3G customer base. Total subscribers of the HKT Group's mobile services reached approximately 1.5 million and 1.5 million as at 31 December 2010 and 31 December 2011, respectively. The 3G subscriber base expanded significantly to approximately 0.7 million and 1.1 million for the same periods.

The growth in the subscriber base for the Group's 2G and 3G mobile services from 2010 to 2011 is set out in the table below.

	As at 31 December	
	2010	**2011**
Mobile subscribers ('000)	1,484	1,535
3G post-paid ('000)	667	1,062
2G post-paid ('000)	250	—
2G prepaid ('000)	567	473

The HKT Group also provides fixed-to-mobile integration technology for its commercial customers to serve their communications needs.

Total mobile revenues were approximately HK$1,709 million and HK$1,967 million for the years ended 31 December 2010 and 2011, respectively, which accounted for approximately 9.2% and 9.9% of the HKT Group's turnover.

The HKT Group intends to continue promoting and strengthening its mobile services via its quadruple-play delivery platforms.

- **Other services**

Other services consist primarily of the sale of customer premises equipment (including the sale of telecommunications equipment and systems and other computers and related products to consumers and enterprises), outsourcing services, consulting services and contact centre services. In addition, the HKT Group designs and provides individualised telecommunications systems that integrate voice and data-switching equipment from various suppliers and supplies and installs local and wide area data network equipment.

Revenues from the other services were approximately HK$3,639 million and HK$4,019 million which accounted for approximately 19.6% and 20.3% of the HKT Group's turnover for the years ended 31 December 2010 and 2011, respectively. The business has benefited from the increased global demand for outsourcing and has expanded both through the increase in its customer base and by acquisitions.

2. **Media Business**

The Media Business is a leading, fully integrated multi-media and entertainment group in Hong Kong.

It is principally engaged in:

- the provision of content and interactive services through multiple distribution channels, including the operation of the largest and most commercially successful pay television service in Hong Kong;

- the production of popular Chinese language programming (including news, financial news, sports, entertainment programming, music concerts and events); and

- the provision of integrated advertising solutions via its television platform and through its online new media assets, currently comprising yp.com.hk (the Internet directories of Yellow Pages), now TV.com and MOOV. The yp.com.hk online Yellow Pages directory services are also made available over various interactive platforms and also through print.

The Media Business operates two key business lines:

- now TV (an IPTV service which derives its revenue from pay television subscription, advertising and interactive activities); and

- new media and directories (which includes its online content and video-streaming services now.com, MOOV and its Yellow Pages business, which is largely web based, yp.com.hk ("New Media and Directories")).

now TV

The Media Business operates the leading subscription television service in Hong Kong under the now TV brand delivering both self-produced and licensed content to its subscribers using advanced IPTV technology. now TV commenced operations in September 2003 with an offering of 23 channels of programming and has increased its content to over 180 standard and high definition local and international programming channels and over 2,000 hours of on-demand content. For the majority of its channels, it is the exclusive provider to Hong Kong viewers.

now TV licences its television content from numerous international content partners and provides programming in 15 languages, predominantly Cantonese, Mandarin and English. It is also a leading producer of Chinese language news, financial news, sports and entertainment programming in addition to music and events production which complements its wide portfolio of licensed international television content. Furthermore, now TV's television programming and interactive services are available on multiple platforms such as online and mobile.

Moreover, now TV struck strategic partnerships in the areas of high quality drama and variety content with HaiRun Media & Entertainment Group Limited and Hunan Broadcasting System, respectively in launching now HaiRun Channel and now Mango Channel. now TV has also formed a joint venture with three top media companies across Hong Kong and the PRC, Huayi Brothers International Limited, acclaimed director Peter Chan's Shine Focus and Edko Films Limited, to launch now TV Popcorn movie channel in March 2012. This channel showcases exclusive first-run films from now TV's partners, as well as other top Hong Kong and Asian films, with rights covering Hong Kong and other markets in the region.

The Group also develops premium content and new services, such as applications for Smartphones and the movie pay-per-view service Video Express. Its multi-screen strategy are key drivers of subscriptions and ARPU.

New Media and Directories

In addition to now TV, the Media Business also operates the New Media and Directories businesses. New Media's digital music service, MOOV, is Hong Kong's first and largest multi-platform digital streaming music service with a catalogue of over 200,000 local, Asian and international songs titles, over 100 concerts-on-demand and over 1,000 music videos. Meanwhile, its online content service, now.com, is a subscription based video streaming proposition offering over 5,000 streaming videos, including popular local drama series, variety shows, news and online games.

The Media Business also operates one of Asia's leading directories businesses under the Yellow Pages brand. Over time, Yellow Pages has been transformed into Hong Kong's leading multimedia advertising solutions platform through its web-based directories service yp.com.hk. Its directories are also offered through a range of other interactive media platforms including mobile and now TV.

For the year ended 31 December	2010	2011	Increase
	HK$ million		y-o-y
Media Business Revenue	2,383	2,707	14%
Media Business EBITDA	232	631	172%
Media Business EBITDA margin	10%	23%	

The Media Business had an encouraging financial performance in 2011, delivering a broader revenue base and higher ARPU on the back of now TV's strong brand, attractive premium content, innovative services and multi-screen strategy. Revenue grew 14% to HK$2,707 million for the year ended 31 December 2011. With higher levels of operating efficiencies achieved, EBITDA surged by 172% to HK$631 million. EBITDA margin was 23% in 2011, a substantial increase from 10% for the year ended 31 December 2010.

As the leader in the Hong Kong pay-TV market, now TV offers more than 180 television channels, video-on-demand and new media content services. During the year ended 31 December 2011, a greater variety of premium sports programming including exclusive content was launched, reinforcing the ARPU of the sports package.

now TV's installed subscriber base continued to expand by 10% to 1,140,000 at the end of December 2011. The installed base ARPU also improved further in the second half of 2011, rebounding to HK$169 at the end of December 2011 (2010: HK$165), as customers took up more premium content and new media services.

During the year ended 31 December 2011, advertising revenue also grew strongly as more attractive local content was produced. Currently, now TV produces more than 20 Chinese-language channels of general news, financial news, sports, entertainment and music.

3. **Solutions Business**

Since 2000, the Solutions Business has transformed itself from an in-house IT department to become a premier Information Technology Outsourcing and Business Process Outsourcing provider in Hong Kong and the PRC. Responsible for a growing number of large-scale IT projects in the public and private sectors, the Solutions Business has a wealth of industry experience and technical expertise and is viewed as a major industry player in Greater China.

The Solutions Business has built a profitable and sustainable business by winning large-scale, long-term projects and ensuring stable recurring revenue streams. Aside from its deep long-term relationships with its clients, the Solutions Business has also cultivated solid relationships with its network of software and hardware partners that are leaders in their own respective fields, enabling the Solutions Business to effectively tailor solutions for its clients and manage its costs.

With extensive experience in a wide range of services and impressive project credentials, the Solutions Business is a trusted partner to blue-chip clients across the financial, telecommunications, media, retail, manufacturing, transportation and public sectors.

The Solutions Business operates four key business lines:

OMS

The OMS business offers a complete range of managed services and data centre services (under the *Powerbase* brand) spanning from data centre design and management to cloud computing services.

SSDI

The SSDI business provides an extensive pool of development resources, and a cost effective outsourcing model to companies across all industries. SSDI services includes IT consulting, enterprise resource planning implementation, as well as the development, integration, and management of applications. In addition, the Solutions Business operates five outsourced development centres in Beijing, Shanghai, Guangzhou, Xian and Hong Kong with over 1,000 developers.

TSIS

The TSIS business segment provides services that combine communications engineering expertise with IT technologies for both the public and commercial sectors. The division has expertise in the deployment of control and monitoring systems, technical operations and round-the-clock operation maintenance.

BPOL

The BPOL business takes on its clients' non-core business processes, which include transaction processing (i.e. payment collection, order fulfilment), document lifecycle management solutions (i.e. document scanning, e-document management system), direct marketing solutions (i.e. printing, direct marketing support services), VIP management (i.e. customer database management, loyalty membership management), and cloud-based point of sales services. BPOL also provides services that cover logistics management and supply chain solutions utilising a variety of RFID technologies.

Solutions Business, as a leading IT service provider in Hong Kong and the PRC, continued to demonstrate strong growth momentum, with notable increases in both revenue and EBITDA in 2011.

For the year ended 31 December	**2010**	**2011**	**Increase**
	HK$ million		**y-o-y**
Solutions Business Revenue	2,039	2,209	8%
Solutions Business EBITDA	284	383	35%
Solutions Business EBITDA margin	14%	17%	

Revenue for the year ended 31 December 2011 increased by 8% to HK$2,209 million compared to HK$2,039 million for the year ended 31 December 2010, as the business benefited from the increase in demand for cloud computing-related and data centre services. Revenue growth was also driven by the fact that the Solutions Business continued to secure more IT service contracts from both the public and private sectors in Hong Kong and the PRC, some of which providing long-term, recurring revenues.

As a forerunner in the provision of a full spectrum of cloud computing services, the Solutions Business managed to capitalise on the fast expanding cloud computing needs. Having built an eminent reputation in the PRC over the past decade, the Solutions Business is also well positioned to capture significant growth opportunities in the PRC market. It has gained customers in various industries including telecommunications, aviation, banking and finance.

Because of enhanced utilisation of its data centre facilities and greater operating efficiencies during the year ended 31 December 2011, EBITDA increased by 35% to HK$383 million and EBITDA margin further improved to 17% for the year ended 31 December 2011.

4. **Property Business**

PCPD is a property developer listed on The Stock Exchange of Hong Kong Limited in which PCCW holds an indirect interest of approximately 61.53%. PCPD Group is mainly engaged in developing and managing premium property and infrastructure projects as well as investing in premium-grade buildings in Hong Kong, the PRC and elsewhere in the Asia Pacific Region. Its largest property development to date is Cyberport, in Hong Kong. The PCPD Group recorded total revenue of HK$2,126 million and EBITDA of HK$333 million for the year ended 31 December 2011, compared with HK$1,495 million and HK$284 million, respectively, for the year ended 31 December 2010. As at 31 December 2011, PCPD held consolidated net assets of approximately HK$7,167 million (31 December 2010: HK$6,865 million).

Property development

The revenue of the PCPD Group from property development in Hong Kong for the year ended 31 December 2011 amounted to approximately HK$1,710 million, compared to approximately HK$1,100 million for the year ended 31 December 2010.

In Hong Kong, the sale of the residential properties in the Cyberport development is largely complete, following completion of the Bel-Air residential blocks in 2008. The PCPD Group sold eight houses at Villa Bel-Air in 2011, and the sale of the final three houses will be marketed at the appropriate time.

In 2011, the thirteenth to sixteenth batches of net surplus proceeds from the Cyberport project, totalling approximately HK$3,262 million, were allocated between the Hong Kong Government and the PCPD Group in accordance with the Cyberport Project Agreement. As a result, the Hong Kong Government received approximately HK$2,105 million while the PCPD Group retained approximately HK$1,157 million.

The PCPD Group has also developed ONE Pacific Heights, a luxury residential project situated in the Western part of Hong Kong Island.

As for the PCPD Group's overseas projects, the detailed design works of Hanazono all-season resort project in Hokkaido, Japan, is making good progress. The master plan for the project in Phang-nga, Southern Thailand, has also reached an advanced stage.

Property investment in the PRC

The PCPD Group's investment property, Pacific Century Place, is located at the heart of Beijing, the PRC. The lettable gross floor area held by the PCPD Group is approximately 169,900 square metres and the tenants of the property comprise many corporations, retailers and residential tenants. The average occupancy rate of the lettable area was approximately 88% for the year ended 31 December 2011.

The PCPD Group's gross rental income amounted to approximately HK$260 million for the year ended 31 December 2011, compared to approximately HK$215 million for the year ended 31 December 2010.

Property Management

The PCPD Group's other businesses include property management in Hong Kong, the PRC and Japan, as well as the Hanazono all-season resort operation. The revenue from property management for the year ended 31 December 2011 amounted to approximately HK$156 million, compared to approximately HK$180 million for the year ended 31 December 2010.

5. **Other Businesses and Eliminations**

Other businesses primarily comprised the wireless broadband business in the United Kingdom ("UK"), namely UKBB, and all corporate support functions. Revenue from other businesses was HK$74 million for the year ended 31 December 2011. The cost to the Group's other businesses amounted to HK$842 million for the year ended 31 December 2011, which included considerable non-recurring costs incidental to the spin-off of HKT and higher marketing expenses in association with the corporate branding of HKT and PCCW during the year.

Eliminations was HK$2,303 million for the year ended 31 December 2011, as compared to HK$1,522 million for the year ended 31 December 2010. Eliminations mainly represented eliminations of intra-group sale and transfer of rights to use certain equipment and assets in the ordinary course of business on an arm's length basis.

UKBB

UKBB is an indirect wholly-owned subsidiary of PCCW and has acquired two national spectrum licences totalling 124MHz of spectrum in the 3.5GHz and 3.6GHz bands that are internationally recognised as being suitable for the deployment of 4th Generation (4G) Long Term Evolution (LTE) high speed wireless broadband data services. Currently, UKBB is the only operator in the UK that has spectrum available for the deployment of such 4G LTE services. UKBB also has acquired a further 2.3GHz of spectrum covering the UK in the 4GHz, 28GHz and 40GHz bands suitable for fast wireless backhaul and fixed link wireless services. UKBB designs and supplies wireless solutions, and is a distributor of a range of wireless equipment, to the public sector and channel partners in the UK. The Group believes that the UK broadband market has the potential for growth due to the relatively low household broadband penetration rate as compared with developed markets in Asia such as Hong Kong, South Korea and Singapore. As the mobile broadband demand is growing very rapidly, driven by Smartphones and tablets, there exists an opportunity for UKBB to provide a wholesale proposition to the mobile network operators.

SALES AND MARKETING

The Group markets its services through its global sales and marketing team. Dedicated sales units are established to address the separate global business, Hong Kong corporate and consumer customer market segments. A team of professional sales consultants in the global and Hong Kong corporate segments rely on the Group's customer relationship management ("CRM") capabilities system to target new products and services towards different customer groups, and cross-sell the Group's services to the customers of its other divisions. The CRM system collects information about customer usage patterns, which can be used for market segmentation and to enable the Group to market on a targeted basis. Industry specialisation and individual client focus on larger clients allows for tailored solutions to a client's specialised needs.

COMPETITION

The implementation of the Hong Kong Government's policy to liberalise the telecommunications industry has resulted in intense competition in the markets for local and international services.

Competition from providers of fixed-line services and resellers, including those whose operations may be augmented through strategic alliances with global and/or foreign strategic partners, has materially increased in the past several years. The market for local telecommunications services is becoming more competitive while the market for IDD services originating in Hong Kong is expected to remain extremely competitive. In addition, mobile telecommunications prices have declined sufficiently so that customers are now more likely to substitute residential local exchange services for mobile telecommunications services. This has affected and continues to affect the Group's market position in the telecommunications market in Hong Kong.

The Group is required in certain situations to provide telecommunications services (including interconnection) to service providers that compete directly with its operations. In Hong Kong, the main competitors of the Group are Wharf T&T Limited, i-CABLE Communications Limited, China Mobile (Hong Kong) Limited, Hong Kong Broadband Network Limited, CSL New World Mobility Limited, SmarTone Mobile Communications Limited, Hutchison Global Communications Holdings Limited, Hutchison Telephone Company Limited and New World Telecommunications Limited.

The Group competes effectively in all of its lines of business by providing:

- unique combination of "quadruple-play" delivery platforms through its established telecommunications infrastructure;
- innovative and broad range of product offerings focused on data related products and value-added services for its customers;
- dedicated sales units to address the needs of its global business, Hong Kong corporate and consumer customer market segments; and
- leadership in overall service quality within the telecommunications market.

The Group's established telecommunications infrastructure enables it to be price competitive across all of its lines of business. The Group continues to strive to provide customers with best quality and price competitive offerings and services.

The Group's Solutions Business faces competition from other information technology and business process outsourcing service providers operating in Hong Kong and the PRC. However, the Solutions Business has developed capabilities in complex, mission-critical projects and comprehensive end-to-end services and currently enjoys a leadership position in the IT services industry in Hong Kong and the PRC.

For the Group's Media Business, the pay television market in Hong Kong is highly competitive. The Media Business faces competition primarily from other Hong Kong pay television service operators. However the Group's Media Business is currently operating the largest and most commercially successful pay television service in Hong Kong.

REGULATION

The Telecommunications Ordinance (Chapter 106 of the Laws of Hong Kong) and the Broadcasting Ordinance (Chapter 562 of the Laws of Hong Kong) provide the legislative framework for the provision of telecommunications services and facilities and regulation of the broadcasting industry in Hong Kong.

The telecommunications and broadcasting industries in Hong Kong were previously regulated by OFTA and the BA, which were merged into a single entity, the CA as from 1 April 2012. The CA will continue to regulate the industries under the existing laws, licences, regulations and policies. The existing Telecommunications Ordinance and Broadcasting Ordinance have not been changed as to substance. Telecommunications and broadcasting service providers will continue to operate under their existing licences granted by OFTA and the BA.

FINANCING

The Group's outstanding external debt as at 31 December 2011 was HK$23,510 million (including short-term debt of HK$40 million) and its net debt, which is calculated as outstanding external debt net of cash and cash equivalents, was HK$18,145 million.

Set forth below are the aggregate amounts, as at 31 December 2011, of the Group's future repayment obligations under its long-term borrowings.

	As at 31 December 2011 (HK$ million)
Repayable after one year	
over one year, but not exceeding two years	8,123
over two years, but not exceeding five years	15,347
	23,470

The major borrowings are summarised as follows:

(i) *Existing loan facilities of the Group*

In 2008, Hong Kong Telecommunications (HKT) Limited (a company within the HKT Group) entered into HK$23.8 billion revolving credit and term loan facilities (the "2008 Facilities") with a group of banks for general corporate purposes including acquisition of assets from companies in the PCCW group as a result of the organisational restructuring. The facilities are guaranteed by HKT Group Holdings Limited and have three tranches including a 3-year HK$8.2 billion revolving credit facility and two HK$7.8 billion term loan facilities with a 3 and 5-year maturity. On 26 May 2010, the two 3-year tranches were repaid in full and cancelled.

On 5 May 2010, Hong Kong Telecommunications (HKT) Limited entered into a HK$16 billion revolving credit and term loan facility with a group of banks for debt refinancing and general corporate purposes. The facility is guaranteed by HKT Group Holdings Limited and has three tranches — a 4-year HK$8 billion revolving credit facility, a 4-year HK$3 billion term loan facility and a 6-year HK$5 billion term loan facility. Part of the proceeds has been used to refinance the two 3-year tranches under the 2008 Facilities which were cancelled in May 2010 upon repayment.

On 18 June 2010, Hong Kong Telecommunications (HKT) Limited entered into various bilateral revolving and term loan facilities with a group of banks to raise an aggregate of HK$3.49 billion for general corporate purposes, including the repayment of existing debt. These facilities are guaranteed by HKT Group Holdings Limited.

In November 2011, Hong Kong Telecommunications (HKT) Limited entered into various bilateral revolving and term loan facilities with a group of banks to raise an aggregate of HK$5.265 billion for general corporate purposes. These facilities are guaranteed by HKT Group Holdings Limited.

In February and March 2012, PCCW entered into various bilateral revolving and term loan facilities with a group of banks to raise an aggregate of HK$3.28 billion for general corporate purposes.

(ii) *U.S.$500 million 6% guaranteed notes due 2013*

On 17 July 2003, PCCW-HKT Capital No.2 Limited, an indirect wholly-owned subsidiary of HKT, issued U.S.$500 million 6% guaranteed notes due 2013 which are listed on the Luxembourg Stock Exchange. The notes are irrevocably and unconditionally guaranteed by PCCW-HKT Telephone Limited, HKT Group Holdings Limited and Hong Kong Telecommunications (HKT) Limited and rank *pari passu* with all other outstanding unsecured and unsubordinated obligations of PCCW-HKT Telephone Limited, HKT Group Holdings Limited and Hong Kong Telecommunications (HKT) Limited.

(iii) *U.S.$500 million 5.25% guaranteed notes due 2015*

On 20 July 2005, PCCW-HKT Capital No.3 Limited, an indirect wholly-owned subsidiary of HKT, issued U.S.$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 PCCW-HKT Telephone Limited, HKT Group Holdings Limited and Hong Kong Telecommunications (HKT) Limited and rank *pari passu* with all other outstanding unsecured and unsubordinated obligations of PCCW-HKT Telephone Limited, HKT Group Holdings Limited and Hong Kong Telecommunications (HKT) Limited.

(iv) *U.S.$500 million 4.25% guaranteed notes due 2016*

On 24 August 2010, PCCW-HKT Capital No. 4 Limited, an indirect wholly-owned subsidiary of HKT, issued U.S.$500 million 4.25% guaranteed notes due 2016, which are listed on the Singapore Exchange Securities Trading Limited. The notes are irrevocably and unconditionally guaranteed by HKT Group Holdings Limited and Hong Kong Telecommunications (HKT) Limited and rank *pari passu* with all other outstanding unsecured and unsubordinated obligations of HKT Group Holdings Limited and Hong Kong Telecommunications (HKT) Limited.

All of the above financings are unsecured.

Capital Expenditure Commitments

Group capital expenditure for the year ended 31 December 2011 was HK$1,991 million (2010: HK$1,847 million), of which the HKT Group accounted for about 80% in 2011 (2010: 87%). Major outlays for the year were mainly expanded investments and network enhancement in meeting demand for high-speed broadband services, quadruple-play and international networks.

Going forward, the Group will continue to invest in its delivery platform and networks taking into account the prevailing market conditions, and using assessment criteria including internal rate of return, net present value and payback period.

As a result of investments made in previous years, the Group has in place the relevant infrastructure for the delivery of its offerings and services via its fixed, mobile and international networks. The Group also has extensive broadband network coverage throughout Hong Kong. These factors provide the Group with greater flexibility in prioritising its capital expenditure. The Group believes that its existing resources and undrawn facilities are sufficient to fund its capital expenditure for the current fiscal year.

Property, Plant and Equipment

The Group's property, plant and equipment primarily consist of transmission plants and exchange equipment (including switches, computer hardware, back-up power, plant etc.) and connecting lines (including cable ducting, copper and fibre optic cabling and poles). Hong Kong Telecommunications (HKT) Limited has been granted limited licences relating to the storage and access of network equipment in certain leasehold land and buildings principally consisting of local telephone exchanges, which in certain cases include engineering facilities or administrative offices and technical and administration centres which are owned by another member of the Group. Nearly all such leases are private treaty grants from the Hong Kong Government, which contain restrictions on their use for specific purposes and on their transfer. The vast majority of these leases do not expire before 2025.

The net book values of the Group's property, plant and equipment as at 31 December 2010 and 31 December 2011 were as follows:

	Net Book Value	
	As at 31 December 2010	As at 31 December 2011
	(HK$ million)	
Property, Plant and Equipment:		
Transmission plant	7,181	7,472
Exchange equipment	3,924	3,563
Other plant and equipment	2,827	2,776
Land and buildings	964	976
Projects under construction	556	690
Total	15,452	15,477

INSURANCE

The Group has insurance policies providing coverage for its assets and operations including loss of or damage to its properties and assets, loss of profit and additional costs of working arising from loss or damage to its properties or assets, public liability, contractual liability, employment liability, errors and omissions, amongst others.

The Group believes that its properties are covered with adequate insurance provided through a combination of its own captive insurance company and direct insurance or reinsurance policies with reputable insurance companies and with commercially prudent deductibles and limits on coverage. Notwithstanding the Group's insurance provisions, the Group could nevertheless experience a material loss as a result of an unforeseeable series of catastrophic events, systemic adverse circumstances, or other adverse occurrences not currently foreseeable and/or not commercially insurable.

EMPLOYEES

The Group's future success will depend, in large part, on its ability to continue to attract, train, retain and motivate highly qualified technical and management personnel.

As at 31 December 2011, the Group had approximately 20,100 employees. There are incentive bonus schemes designed to motivate and reward employees at all levels to achieve the Group's business performance targets. Payment of bonuses is generally based on achievement of EBITDA and free cash flow targets for the Group as a whole and for each of the individual business units.

INTELLECTUAL PROPERTY

The Group relies on a combination of trademarks, service marks, domain name registrations, copyright protection and contractual restrictions to establish and protect its brand name and logos, marketing designs and Internet domain names. Over 120 registered trademarks are used and owned by the Group. The Group is not critically dependent upon any third-party patents or licences.

DIRECTORS AND SENIOR MANAGEMENT

The following individuals have been appointed to serve as the directors and senior management of PCCW:

Name	Position
Executive Directors	
LI Tzar Kai, Richard	Chairman
CHAN Ching Cheong, George	Group Managing Director
HUI Hon Hing, Susanna	Group Chief Financial Officer
LEE Chi Hong, Robert	Executive Director
Non-Executive Directors	
Sir David FORD, KBE, LVO	Non-Executive Director
TSE Sze Wing, Edmund, GBS	Non-Executive Director
LU Yimin	Deputy Chairman
LI Fushen	Non-Executive Director
LI Gang	Non-Executive Director
Independent Non-Executive Directors	
Dr The Hon Sir David LI Kwok Po, GBM, GBS, OBE, JP	Independent Non-Executive Director
Aman MEHTA	Independent Non-Executive Director
WEI Zhe, David	Independent Non-Executive Director
Frances Waikwun WONG	Independent Non-Executive Director

Directors

EXECUTIVE DIRECTORS

LI Tzar Kai, Richard
Chairman

Mr Li was appointed an Executive Director and Chairman of PCCW in August 1999. He is the Chairman of PCCW's Executive Committee and a member of Nomination Committee of the Board. He is also the Chairman and Chief Executive of the Pacific Century Group, the Executive Chairman and an Executive Director of HKT and the Trustee-Manager, the Chairman of HKT's Executive Committee and a member of HKT's Nomination Committee, an Executive Director and the Chairman of PCPD, the Chairman of PCPD's Executive Committee, a member of PCPD's Remuneration Committee and Nomination Committee, and the Chairman of Singapore-based Pacific Century Regional Developments Limited.

Mr Li is a Non-Executive Director of The Bank of East Asia, Limited. He is also a member of the Global Information Infrastructure Commission. Mr Li was awarded the Lifetime Achievement Award by the Cable & Satellite Broadcasting Association of Asia in November 2011.

CHAN Ching Cheong, George
Group Managing Director

Mr Chan was appointed an Executive Director and Group Managing Director of PCCW in November 2011. He is a member of PCCW's Executive Committee. He joined the Group as Chairman — PCCW Media Group in 2010 and currently holds directorships in various companies of the Group.

He has over 18 years of experience with Television Broadcasts Limited between the periods from 1975 to 1989 (as Controller (Marketing and Sales) from 1982 to 1989) and 2004 to 2009 (as Assistant Managing Director). He has also had a successful career as an entrepreneur and as a director of several prominent companies engaged in media, telecommunications and technology in Hong Kong and overseas. Amongst other successful start-ups, Mr Chan co-founded TVB (USA) Inc., STAR-TV, Pacific Century Group and PCCW in 1984, 1990, 1994 and 1999 respectively.

Mr Chan graduated with a Bachelor of Science degree from the University of Hong Kong and also has an MBA degree from the University of San Francisco.

HUI Hon Hing, Susanna
Group Chief Financial Officer

Ms Hui was appointed an Executive Director of PCCW in May 2010. She is a member of PCCW's Executive Committee. She has been the Group Chief Financial Officer of PCCW since April 2007 and holds directorships in various PCCW group companies. She is also an Executive Director of HKT and the Trustee-Manager. Ms Hui is a member of HKT's Executive Committee and the Group Chief Financial Officer of HKT. Prior to her appointment as the Group Chief Financial Officer of PCCW, Ms Hui was Director of Group Finance of PCCW from September 2006 to April 2007. Before that, Ms Hui was Director of Finance of PCCW, with responsibility for the telecommunications services sector and regulatory accounting. Ms Hui was the Chief Financial Officer of PCPD from July 2009 to November 2011.

Prior to joining Cable & Wireless HKT Limited (which was subsequently acquired by PCCW) in September 1999, Ms Hui was the chief financial officer of a listed company engaged in hotel and property investment and management.

Ms Hui graduated with a bachelor's degree in social sciences from the University of Hong Kong with first class honours. She is a qualified accountant and a member of both the Hong Kong Institute of Certified Public Accountants and the American Institute of Certified Public Accountants.

LEE Chi Hong, Robert
Executive Director

Mr Lee was appointed an Executive Director of PCCW in September 2002. He is a member of PCCW's Executive Committee. He is also an Executive Director, Chief Executive Officer and Deputy Chairman of 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 specialised in banking, property development, corporate finance and dispute resolution in Hong Kong and the PRC. Before that, he was a solicitor with the London firm Pritchard Englefield & Tobin (now Pritchard Englefield). He was enrolled as a solicitor in the United Kingdom in 1979 and admitted as a solicitor in Hong Kong in 1980. Mr Lee became a Notary Public in Hong Kong in 1991.

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

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

NON-EXECUTIVE DIRECTORS

Sir David FORD, KBE, LVO
Non-Executive Director

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

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

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

TSE Sze Wing, Edmund, GBS
Non-Executive Director

Mr Tse is a Non-Executive Director of PCCW. He was an Independent Non-Executive Director of PCCW from September 2009 and was re-designated to a Non-Executive Director of PCCW in March 2011.

Mr Tse is the Non-Executive Chairman and a Non-Executive Director of AIA Group Limited. He is also the Chairman of The Philippine American Life and General Insurance Company. From 1996 until June 2009, Mr Tse was Director of American International Group, Inc. (AIG) and from 2001 until June 2009, he was Senior Vice Chairman — Life Insurance of AIG. From 2000 until June 2009, he was also Chairman and Chief Executive Officer of American International Assurance Company, Limited. Mr Tse has held various senior positions and directorships in other AIG companies. Mr Tse is a Non-Executive Director of PICC Property and Casualty Company Limited. Mr Tse is also the Non-Executive Chairman for Asia ex-Japan of PineBridge Investments Asia Limited which is an asset management company owned indirectly by Mr Li Tzar Kai, Richard, the Chairman of PCCW.

Mr Tse was awarded the Gold Bauhinia Star (GBS) by the Government of the Hong Kong Special Administrative Region (HKSAR) in 2001 in recognition of his outstanding efforts in respect of the development of Hong Kong's insurance industry. Mr Tse graduated with a Bachelor of Arts degree in Mathematics from the University of Hong Kong (HKU) in 1960. HKU conferred an Honorary Fellowship and an Honorary Doctorate Degree in Social Sciences on Mr Tse in 1998 and 2002 respectively. He also obtained diplomas from the College of Insurance and the Graduate School of Business of Stanford University. He has extensive management experience in the insurance market, both in Asia and globally. In 2003, Mr Tse was elected to the Insurance Hall of Fame, and is so far the only Chinese to receive this most prestigious award in the global insurance industry. Mr Tse serves many community and professional organizations as well as educational institutions. He is also a director of AIA Foundation, which supports charitable causes in Hong Kong.

LU Yimin
Deputy Chairman

Mr Lu became a Non-Executive Director of PCCW in May 2008. He was appointed Deputy Chairman in November 2011 and is a member of PCCW's Executive Committee. He is also a Non-Executive Director of HKT and the Trustee-Manager, and a member of HKT's Remuneration Committee, Nomination Committee, Regulatory Compliance Committee and Executive Committee.

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

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

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

LI Fushen
Non-Executive Director

Mr Li became a Non-Executive Director of PCCW in July 2007 and is a member of the Nomination Committee of the Board. He is also a Non-Executive Director of HKT and the Trustee-Manager.

Mr Li is an Executive Director and Chief Financial Officer of China Unicom (Hong Kong) Limited (Unicom HK). He is a Director, Vice President and Chief Accountant of China United Network Communications Group Company Limited. He is also a Director of China United Network Communications Limited and a Director and Senior Vice President of China United Network Communications Corporation Limited.

He served as Senior Vice President of Unicom HK from February 2009 to March 2011. He served as an Executive Director of China Netcom Group Corporation (Hong Kong) Limited (CNC HK) since January 2007 and as Chief Financial Officer of CNC HK since September 2005. He served as Joint Company Secretary of CNC HK from December 2006 to March 2008. Since October 2005, he has served as Chief Accountant of China Network Communications Group Corporation (CNC). From October 2003 to August 2005, he served as General Manager of the Finance Department of CNC. From November 2001 to October 2003, he served as Deputy General Manager of the former Jilin Provincial Telecommunications Company and Jilin Communications Company.

Mr Li graduated from the Australian National University with a master's degree in management in 2004, and from the Jilin Engineering Institute with a degree in engineering management in 1988. Mr Li has worked in the telecommunications industry for a long period of time and has extensive management experience.

LI Gang
Non-Executive Director

Mr Li was appointed a Non-Executive Director of PCCW in November 2011 and is a member of the Remuneration Committee of the Board.

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

Mr Li served as an Executive Director and Vice President of Unicom HK from April 2006 to February 2009 and has been a Senior Vice President of Unicom HK since February 2009. From August 1999 to December 2005, he served as the Deputy Chairman, General Manager and Chairman of

Guangdong Mobile Communication Co., Limited and as the Chairman and General Manager of Beijing Mobile Communication Co., Limited. From May 2000 to December 2005, he also served as an Executive Director of China Mobile (Hong Kong) Limited. Mr Li joined China United Network Communications Group Company Limited in December 2005 and served as Vice President.

Mr Li graduated from Beijing University of Posts and Telecommunications and was awarded a master's degree in business administration by Jinan University. Mr Li has worked in the telecommunications industry for a long period of time and has rich management experience.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr The Hon Sir David LI Kwok Po, GBM, GBS, OBE, JP
Independent Non-Executive Director

Sir David 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 and Nomination 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, CaixaBank, S.A. (formerly 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 and AFFIN Holdings Berhad.

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 and a member of the Council of the Treasury Markets Association.

Aman MEHTA
Independent Non-Executive Director

Mr Mehta became an Independent Non-Executive Director of PCCW in February 2004 and is Chairman of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Board.

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

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

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

Following his retirement in December 2003, Mr Mehta took up residence in New Delhi. He is an Independent Director on the board of several public companies and institutions in India and internationally. He is an Independent Non-Executive Director of Vedanta Resources plc. in the United Kingdom, Tata Consultancy Services Limited, Godrej Consumer Products Limited, Jet Airways (India)

Ltd. and Wockhardt Limited in Mumbai, India; Max India Limited and Cairn India Limited in New Delhi, India. He is also an Independent Director on the Supervisory Board of ING Groep N.V., a Netherlands company. He was an Independent Non-Executive Director of Emaar MGF Land Limited.

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.

WEI Zhe, David
Independent Non-Executive Director

Mr Wei was appointed an Independent Non-Executive Director of PCCW in November 2011 and is a member of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Board.

Mr Wei has over 15 years of experience in both investment and operational management in the PRC. Prior to launching Vision Knight Capital Partners LLP, a private equity investment fund in 2011, Mr Wei was an executive director and chief executive officer of Alibaba.com Limited, a leading worldwide B2B e-commerce company, for about five years, where he successfully led the company through its initial public offering and listing on The Stock Exchange of Hong Kong Limited in 2007. Prior to Alibaba.com Limited, Mr Wei was the president, from 2002 to 2006, and chief financial officer, from 2000 to 2002, of B&Q China, a subsidiary of Kingfisher plc, a leading home improvement retailer in Europe and Asia. Under Mr Wei's leadership, B&Q China grew to become the PRC's largest home improvement retailer. From 2003 to 2006, Mr Wei was also the chief representative for Kingfisher's China sourcing office, Kingfisher Asia Ltd. Prior to that, Mr Wei served as managing director and head of investment banking at Orient Securities Company Limited from 1998 to 2000, and as corporate finance manager at Coopers & Lybrand (now part of PricewaterhouseCoopers) from 1995 to 1998. Mr Wei was a non-executive director of HSBC Bank (China) Company Limited and The Hongkong and Shanghai Banking Corporation Limited in the past three years. He was voted as one of "China's Best CEOs" by FinanceAsia magazine in 2010. Mr Wei was also the vice chairman of China Chain Store & Franchise Association.

He holds a bachelor's degree in international business management from Shanghai International Studies University and has completed a corporate finance program at London Business School.

Frances Waikwun WONG
Independent Non-Executive Director

Ms Wong was appointed an Independent Non-Executive Director of PCCW in March 2012. She is currently a financial advisor of Good Harbour Finance Limited. She began her career as a management consultant at McKinsey & Company in the United States in 1986. Ms Wong returned to Hong Kong and joined the Hutchison Whampoa group of companies in 1988, taking on various positions. She was managing director of Weatherite Manufacturing Limited, an air conditioning manufacturer. Later, Ms Wong became chief executive officer of Metro Broadcast Corporation Limited. Eventually, she became chief financial officer of Star TV, Asia's first satellite television company. After leaving the Hutchison Whampoa Group in 1992, she became group chief financial officer for the Pacific Century Group. After she resigned from the Pacific Century Group in 1999, she founded the Independent Schools Foundation in Hong Kong. Ms Wong was educated in the United States at the Stanford University where she received a Bachelor of Science degree. She holds a Master of Science degree from the Massachusetts Institute of Technology. Ms Wong was a member of the Central Policy Unit, the Government of the Hong Kong Special Administrative Region (think tank). She has served on many educational boards including the Canadian International School, the Open University of Hong Kong and was a member of the Joint Committee on Student Finance of Student Financial Assistance Agency.

USE OF PROCEEDS

The net proceeds from the offering of the Notes, after deducting underwriting commissions and expenses are estimated to be approximately U.S.$295 million. The Group will use the net proceeds for its general corporate purposes.

TAXATION

The following summary of certain British Virgin Islands and Hong Kong tax consequences of the purchase, ownership and disposition of the Notes is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of the Notes should consult their own tax advisers concerning the tax consequences of the purchase, ownership and disposition of the Notes.

Prospective investors should consult their professional advisers on the possible tax consequences of buying, holding or selling any Notes under the laws of their country of citizenship, residence or domicile.

British Virgin Islands

The Issuer is incorporated in the British Virgin Islands.

The Issuer and all interest and other amounts (if any), paid by the Issuer to persons who are not persons resident in the British Virgin Islands are exempt from the provisions of the Income Tax Act in the British Virgin Islands, and any capital gains realised by persons who are not persons resident in the British Virgin Islands with respect of any shares, debt obligations, or other securities of the Issuer are exempt from all forms of taxation in the British Virgin Islands. As at 1 January 2005, the Payroll Taxes Act, 2004 came into force. It will not apply to the Issuer except to the extent that the Issuer has employees (and deemed employees) rendering services to the Issuer wholly or mainly in the British Virgin Islands. The Issuer at present has no employees in the British Virgin Islands and no intention of having any employees in the British Virgin Islands.

No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not persons resident in the British Virgin Islands with respect to any shares, debt obligations or other securities of the Issuer.

All instruments relating to transfers of property to or by the Issuer and all instruments relating to transactions in respect of the shares, debt obligations or other securities of the Issuer and all instruments relating to other transactions relating to the business of the Issuer are exempt from the payment of stamp duty in the British Virgin Islands.

There are currently no withholding taxes or exchange control regulations in the British Virgin Islands applicable to the Issuer or its members. However, European Council Directive 2003/48/EC on the taxation of savings income (the "Directive") applies to certain overseas territories (including the British Virgin Islands, where the Issuer is incorporated) and a number of non-EU countries in addition to the EU Member States.

Holders who are individuals resident in a Member State of the European Community should be aware that any income realised upon the sale, refund or redemption of their Notes, together with any income in the form of dividends or other distributions, may become subject to the reporting regime (or the withholding tax regime) imposed by the Directive on taxation of savings income in the form of interest payments, if payment of such income is made by a paying agent established either in another Member State or in certain other jurisdictions which have agreed to introduce an equivalent reporting (or withholding tax) regime in respect of such payments.

However, because these rules are complex and the precise extent of their application has not yet been confirmed by all Member States or other relevant jurisdictions which have agreed to introduce an equivalent reporting (or withholding tax) regime, application of the regime cannot be excluded in all cases and Noteholders who are individuals should consult their own tax advisers in relation to the purchase of the Notes.

Hong Kong

Withholding tax

No withholding tax in Hong Kong is payable on payments of principal or interest in respect of the Notes.

Profits tax

Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business.

Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the "Inland Revenue Ordinance") as it is currently applied, Hong Kong profits tax may be charged on revenue profits arising on the sale, disposal or redemption of the Notes where such sale, disposal or redemption is or forms part of a trade, profession or business carried on in Hong Kong.

Interest on the Notes will be subject to Hong Kong profits tax where such interest has a Hong Kong source, and is received by or accrues to:

(a) a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong, notwithstanding that the moneys in respect of which the interest is received or accrues are made available outside Hong Kong; or

(b) a corporation carrying on a trade, profession or business in Hong Kong by way of interest derived from Hong Kong; or

(c) a person, other than a corporation, carrying on a trade, profession or business in Hong Kong by way of interest derived from Hong Kong and such interest is in respect of the funds of the trade, profession or business.

Stamp duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Note.

EU Savings Tax Directive

The EU has adopted a Directive regarding the taxation of savings income. The Directive requires Member States to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual or to certain other persons in another Member State, except that Austria and Luxembourg may instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period they elect otherwise. The British Virgin Islands has implemented the Directive which may affect holders who are individual residents in a Member State. Please refer to "Taxation — British Virgin Islands" for more information.

SUBSCRIPTION AND SALE

The Issuer and the Guarantor have entered into a subscription agreement with Morgan Stanley & Co. International plc and The Royal Bank of Scotland plc (the "Joint Lead Managers") dated 12 April 2012 (the "Subscription Agreement") pursuant to which and subject to certain conditions contained therein, the Issuer agreed to sell to the Joint Lead Managers, and the Joint Lead Managers, agreed to subscribe for the aggregate principal amount of the Notes, and the Guarantor agreed, unconditionally and irrevocably to guarantee the Notes.

The Subscription Agreement provides that each of the Issuer and the Guarantor will indemnify each Joint Lead Manager against certain liabilities in connection with the offer and sale of the Notes. The Subscription Agreement provides that the obligations of the Joint Lead Managers are subject to certain conditions precedent, and entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Notes is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

The Joint Lead Managers and certain of their respective affiliates may have performed certain investment banking and advisory services for the Guarantor and/or its respective affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for the Guarantor and/or its respective affiliates in the ordinary course of their business.

Each Joint Lead Manager and certain of their respective affiliates may purchase the Notes and be allocated Notes for asset management and/or proprietary purposes and not with a view to distribution.

Each Joint Lead Manager or certain of their respective affiliates may purchase the Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes and/or other securities of the Issuer or the Guarantor or their respective subsidiaries or associates at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Notes).

General

No action has been or will be taken in any jurisdiction by any Joint Lead Manager, the Issuer or the Guarantor that would, or is intended to, permit a public offering of the Notes, or the possession or distribution of this Offering Circular or any amendment or supplement thereto or any offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

Accordingly, the Notes should not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material, circular, prospectus, form of application or advertisement in connection with the Notes should be distributed or published in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws and regulations and will not impose any obligations on the Issuer, the Guarantor or the Joint Lead Managers.

United States

The Notes and the Guarantee have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Notes and the Guarantee (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes and the Guarantee during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes and the Guarantee within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S. The Notes and the Guarantee are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Notes and Guarantee, an offer or sale of Notes and the Guarantee within the United States by any dealer that is not participating in the Offering may violate the registration requirements of the Securities Act.

United Kingdom

Each Joint Lead Manager has represented and agreed that:

(i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or each of the Guarantors; and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

The Netherlands

Each Joint Lead Manager has represented and agreed that it will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular to the public in the Netherlands unless such offer is made exclusively to legal entities which are qualified investors (as defined in the Prospectus Directive and which includes authorised discretionary asset managers acting for the account of retail investors under a discretionary investment management contract) in the Netherlands.

For the purposes of this provision, the expression "**an offer of Notes to the public**" in the Netherlands in relation to any Notes means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in the Netherlands by any measure implementing the Prospectus Directive in the Netherlands, the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Netherlands, and includes any relevant implementing measure in the Netherlands), and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

Hong Kong

Each Joint Lead Manager has represented and agreed that (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to "professional investors" as defined in the SFO and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance or which do not constitute an offer to the public within the meaning of that Ordinance; and (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made thereunder.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Law No. 25 of 1948, as amended) (the "Financial Instruments and Exchange Act") and, accordingly, each Joint Lead Manager has represented and agreed that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Control Law (Law No. 228 of 1949, as amended) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of or otherwise in compliance with the Financial Instruments and Exchange Act and all applicable laws, regulations and material guidelines of Japan.

Singapore

Each Joint Lead Manager has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented and agreed that it has not offered or sold any Notes or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Notes:

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within 6 months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 except:

(1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law; or

(4) as specified in Section 276(7) of the SFA.

British Virgin Islands

Each Joint Lead Manager has represented and agreed that it has not made and will not make any invitation to the public in the British Virgin Islands to offer or sell the Notes.

GENERAL INFORMATION

1 **Clearing Systems:** The Notes have been accepted for clearance through Euroclear and Clearstream under Common Code number 076646015. The International Securities Identification Number for the Notes is XS0766460157.

2 **Listing of Notes:** Approval in-principle has been received for the listing of the Notes on the SGX-ST. The Notes will be traded on the SGX-ST in a minimum board lot size of U.S.$200,000 for so long as the Notes are listed on the SGX-ST. For so long as the Notes are listed on the SGX-ST, the Issuer shall appoint and maintain a paying agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, in the event that the Global Certificate is exchanged for Certificates in definitive form. In addition, in the event that the Global Certificate is exchanged for Certificates in definitive form, announcement of such exchange shall be made by or on behalf of the Issuer through the SGX-ST and such an announcement will include all material information with respect to the delivery of the Certificates in definitive form, including details of the paying agent in Singapore.

3 **Authorisations:** The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue of the Notes. The issue of the Notes was authorised by resolutions of the Board of Directors of the Issuer passed on 30 March 2012. The Guarantor has obtained all necessary consents, approvals and authorisations in connection with the provision of the Guarantee. The provision of the Guarantee was authorised by resolution of the Executive Committee of the Board of Directors of the Guarantor on 30 March 2012.

4 **No Material Adverse Change:** There has been no material adverse change in the financial or trading position or prospect of the Issuer since its date of incorporation and the Group since 31 December 2011.

5 **Litigation:** Neither the Issuer nor the Group is involved in any litigation or arbitration proceedings which are material in the context of the Notes nor is the Issuer or the Guarantor aware that any such proceedings are pending or threatened.

6 **Available Documents:** The audited consolidated financial statements of PCCW for the year ended 31 December 2011, as well as the Trust Deed and the Agency Agreement will be available for inspection, at the specified office of the Guarantor at 38/F, Citibank Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong during normal business hours, so long as any of the Notes is outstanding.

7 **Auditor:** The audited consolidated financial statements of PCCW for the year ended 31 December 2011, which are included in this Offering Circular, have been audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as stated in their report appearing herein.

INDEX TO AUDITED FINANCIAL STATEMENTS

Audited Consolidated Financial Statements of PCCW for the year ended 31 December 2011

The following is the reproduction of the audited financial statements of PCCW for the year ended 31 December 2011 together with the independent auditor's report appearing in the 2011 annual report of PCCW (the "Annual Report").

References to page numbers in the following financial statements refer to the original page numbers in the Annual Report and cross-references to page numbers are to such original page numbering.

Certain cross-references in the reproduced audited consolidated financial statements of PCCW are to other sections of the Annual Report not contained in this Offering Circular. For the avoidance of doubt, such cross-referenced information is not incorporated by reference in this Offering Circular.

Note:

(1) The Independent Auditor's Report on the consolidated financial statements of PCCW for the year ended 31 December 2011 set out therein are reproduced from the annual report of PCCW for the year ended 31 December 2011. Page reference referred in the Independent Auditor's Report refer to pages set out in such annual report.

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

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

We have audited the consolidated financial statements of PCCW Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 50 to 137, which comprise the consolidated and company balance sheets as at December 31, 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company statements of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at December 31, 2011 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, February 28, 2012

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

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2011

In HK$ million (except for earnings per share)	Note(s)	2010	**2011**
Turnover	6 & 7	22,962	**24,638**
Cost of sales		(10,533)	**(11,397)**
General and administrative expenses		(8,924)	**(9,604)**
Other gains, net	8	1,217	**143**
Interest income		27	**71**
Finance costs	10	(1,587)	**(1,565)**
Share of results of associates		47	**44**
Share of results of jointly controlled companies		(129)	**(12)**
Profit before income tax	7 & 9	3,080	**2,318**
Income tax	12	(756)	**(542)**
Profit for the year		2,324	**1,776**
Attributable to:			
Equity holders of the Company		1,926	**1,607**
Non-controlling interests		398	**169**
Profit for the year		2,324	**1,776**
Earnings per share	15		
Basic		27.75 cents	**22.10 cents**
Diluted		27.75 cents	**22.10 cents**

The notes on pages 56 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, 2011

In HK$ million	2010	**2011**
Profit for the year	2,324	**1,776**
Other comprehensive income		
Translation exchange differences:		
– exchange differences on translating foreign operations	436	**269**
Available-for-sale financial assets:		
– changes in fair value	27	**97**
– transfer to income statement on disposal	(10)	**–**
Cash flow hedges:		
– effective portion of changes in fair value	24	**16**
– transfer from equity to income statement	(94)	**(49)**
Other comprehensive income for the year	383	**333**
Total comprehensive income for the year	2,707	**2,109**
Attributable to:		
Equity holders of the Company	2,205	**1,833**
Non-controlling interests	502	**276**
Total comprehensive income for the year	2,707	**2,109**

The notes on pages 56 to 137 form part of these consolidated financial statements.

CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY

For the year ended December 31, 2011

In HK$ million	Note(s)	The Group 2010 Attributable to equity holders of the Company	The Group 2010 Non-controlling interests	The Group 2010 Total equity	The Company 2010 Total equity
At January 1, 2010		(5,445)	3,420	(2,025)	28,623
Total comprehensive income for the year		2,205	502	2,707	1,949
Dividend paid in respect of previous year	14 & 33	(901)	–	(901)	(901)
Dividend declared and paid in respect of the current year	14 & 33	(370)	–	(370)	(370)
Dividend declared and paid to non-controlling shareholders of subsidiaries		–	(1,267)	(1,267)	–
Issue of ordinary shares, net of issuing expenses		1,279	–	1,279	1,279
Increase in ownership interest in a subsidiary	43	(31)	–	(31)	–
At December 31, 2010		(3,263)	2,655	(608)	30,580

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

The notes on pages 56 to 137 form part of these consolidated financial statements.

CONSOLIDATED AND COMPANY BALANCE SHEETS

As at December 31, 2011

In HK$ million		The Group		The Company	
	Note(s)	2010	**2011**	2010	**2011**
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	16	15,452	**15,477**	–	**–**
Investment properties	17	5,085	**5,384**	–	**–**
Interests in leasehold land	18	552	**530**	–	**–**
Properties held for/under development	19	1,052	**1,105**	–	**–**
Goodwill	20	3,170	**3,170**	–	**–**
Intangible assets	21	2,388	**2,812**	–	**–**
Investments in subsidiaries	22	–	**–**	12,089	**12,089**
Interests in associates	23	233	**402**	–	**–**
Interests in jointly controlled companies	24	477	**515**	–	**–**
Held-to-maturity investments		2	**2**	–	**–**
Available-for-sale financial assets	25	281	**575**	–	**–**
Derivative financial instruments	29	152	**275**	–	**–**
Deferred income tax assets	34(a)	78	**148**	–	**–**
Other non-current assets		465	**514**	–	**–**
		29,387	**30,909**	12,089	**12,089**
Current assets					
Properties for sale	19	772	**455**	–	**–**
Amounts due from subsidiaries	22(a)	–	**–**	18,262	**17,423**
Sales proceeds held in stakeholders' accounts	26(a)	845	**632**	–	**–**
Restricted cash	26(b)	2,281	**735**	32	**32**
Prepayments, deposits and other current assets	26(c)	3,226	**3,497**	10	**10**
Inventories	26(d)	957	**1,166**	–	**–**
Amounts due from related companies	5(d)	2	**–**	–	**–**
Derivative financial instruments	29	17	**–**	–	**–**
Trade receivables, net	26(e)	2,529	**3,084**	–	**–**
Tax recoverable		16	**7**	–	**–**
Cash and cash equivalents	36(c)	8,101	**5,365**	194	**87**
		18,746	**14,941**	18,498	**17,552**
Current liabilities					
Short-term borrowings	26(f)	(7,800)	**(40)**	–	**–**
Trade payables	26(g)	(1,705)	**(1,777)**	–	**–**
Accruals and other payables		(4,005)	**(4,134)**	(7)	**(19)**
Amount payable to the Government under the Cyberport Project Agreement	28	(1,606)	**(603)**	–	**–**
Carrier licence fee liabilities	35	(143)	**(187)**	–	**–**
Amounts due to related companies	5(d)	(57)	**(27)**	–	**–**
Advances from customers		(1,860)	**(1,750)**	–	**–**
Current income tax liabilities		(568)	**(786)**	–	**–**
Dividend payable	14 & 33	–	**(1,443)**	–	**(1,443)**
		(17,744)	**(10,747)**	(7)	**(1,462)**
Net current assets		1,002	**4,194**	18,491	**16,090**
Total assets less current liabilities		30,389	**35,103**	30,580	**28,179**

In HK$ million	Note	The Group 2010	The Group 2011	The Company 2010	The Company 2011
Non-current liabilities					
Long-term borrowings	27	(27,041)	**(23,470)**	–	**–**
Derivative financial instruments	29	(102)	**–**	–	**–**
Deferred income tax liabilities	34(a)	(2,109)	**(2,222)**	–	**–**
Deferred income		(727)	**(893)**	–	**–**
Defined benefit liability	31(a)(i)	(4)	**(3)**	–	**–**
Carrier licence fee liabilities	35	(895)	**(815)**	–	**–**
Other long-term liabilities		(119)	**(120)**	–	**–**
		(30,997)	**(27,523)**	–	–
Net (liabilities)/assets		(608)	**7,580**	30,580	**28,179**
CAPITAL AND RESERVES					
Share capital	30	1,818	**1,818**	1,818	**1,818**
(Deficit)/Reserves	33	(5,081)	**4,286**	28,762	**26,361**
Equity attributable to equity holders of the Company		(3,263)	**6,104**	30,580	**28,179**
Non-controlling interests		2,655	**1,476**	–	**–**
Total equity		(608)	**7,580**	30,580	**28,179**

Approved and authorized for issue by the Board of Directors on February 28, 2012 and signed on behalf of the Board by

Chan Ching Cheong, George
Director

Hui Hon Hing, Susanna
Director

The notes on pages 56 to 137 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2011

In HK$ million	Note	2010	**2011**
NET CASH GENERATED FROM OPERATING ACTIVITIES	36(a)	5,920	**6,778**
INVESTING ACTIVITIES			
Proceeds from disposals of property, plant and equipment		6	**23**
Purchases of property, plant and equipment		(1,798)	**(1,960)**
Payment for investment properties		–	**(27)**
Purchases of intangible assets		(1,356)	**(1,902)**
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	36(b)	(8)	**–**
Contingent consideration paid for subsidiaries acquired		(85)	**–**
Acquisition of associates		–	**(56)**
Acquisition of jointly controlled companies		–	**(7)**
Capital contribution to an associate		–	**(28)**
Loan to an associate		–	**(71)**
Loan to a jointly controlled company		(1)	**(41)**
Proceeds from disposal of an associate		17	**–**
Purchases of available-for-sale financial assets		(28)	**(229)**
Proceeds from disposals of available-for-sale financial assets		101	**31**
Interest received		86	**154**
Dividend received from associates		14	**40**
Consideration paid to non-controlling interests for an increase in ownership interest in a subsidiary	43	(31)	**–**
NET CASH USED IN INVESTING ACTIVITIES		(3,083)	**(4,073)**
FINANCING ACTIVITIES			
Proceeds from dilution of interest in HKT Group		–	**9,302**
Listing expenses paid		–	**(360)**
Proceeds from issuance of ordinary shares, net of issuing expenses		1,279	**–**
Finance fees paid for new borrowings raised		(302)	**–**
New borrowings raised		16,152	**6,251**
Interest paid		(1,358)	**(1,528)**
Repayments of borrowings		(16,112)	**(17,975)**
Dividends paid to shareholders of the Company		(1,271)	**(1,127)**
Dividends paid to non-controlling shareholders of subsidiaries		(1,267)	**(35)**
Decrease in restricted cash		21	**–**
NET CASH USED IN FINANCING ACTIVITIES		(2,858)	**(5,472)**
NET DECREASE IN CASH AND CASH EQUIVALENTS		(21)	**(2,767)**
Exchange differences		73	**31**
CASH AND CASH EQUIVALENTS			
Beginning of year		8,049	**8,101**
End of year	36(c)	8,101	**5,365**

The notes on pages 56 to 137 form part of these consolidated financial statements.

1 GENERAL INFORMATION

PCCW Limited (the "Company") was incorporated in the Hong Kong Special Administrative Region ("Hong Kong") and its securities have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since October 18, 1994. The address of its registered office is 38th Floor, Citibank Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong. The principal activities of the Company and its subsidiaries (together the "Group") are the provision of local, mobile and international telecommunications services, Internet access services, interactive multimedia and pay-TV services, the sale and rental of telecommunications equipment, and the provision of computer, engineering and other technical services primarily in Hong Kong, and also in mainland China and elsewhere in the Asia Pacific region; investments in, and development of, systems integration, network engineering, and technology-related businesses; and investments in, and development of, infrastructure and properties in Hong Kong, mainland China and elsewhere in the Asia Pacific region.

2 GLOBAL OFFERING OF HKT TRUST AND HKT LIMITED

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

3 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

a. Statement of compliance

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

b. Basis of preparation of the financial statements

The following new HKFRSs are mandatory for the first time for the financial year beginning January 1, 2011, but have no material effect on the Group's results and financial position for the current and prior accounting periods.

- HKFRS 1 (Revised) (Amendment), 'First-time Adoption of Hong Kong Financial Reporting Standards'.
- HKAS 24 (Revised), 'Related Party Disclosures'.
- HKAS 32 (Amendment), 'Financial Instruments: Presentation'.
- HK(IFRIC) – Int 14 (Amendment), 'HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'.
- HK(IFRIC) – Int 19, 'Extinguishing Financial Liabilities with Equity Instruments'.
- Improvements to HKFRSs 2010 issued in May 2010 by the HKICPA.

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, 2011 comprise the financial statements of the Company and its subsidiaries, and the Group's interests in associates and jointly controlled companies.

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

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

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

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

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

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

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

c. Subsidiaries and non-controlling interests

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

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

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

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

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

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

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

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

Where losses applicable to the non-controlling interests exceed the non-controlling shareholder's interest in the equity of a subsidiary, the excess, and any further losses applicable to the non-controlling interests, are charged against the Group's interest except to the extent that the non-controlling shareholder 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 non-controlling shareholder'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.

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

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

d. Associates

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

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

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

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

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

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

e. Jointly controlled companies

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

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

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

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

f. Property, plant and equipment

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

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

– other items of plant and equipment.

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

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

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

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

Land and buildings	Over the shorter of the unexpired term of land lease and the estimated useful lives
Exchange equipment	5 to 10 years
Transmission plant	5 to 30 years
Other plant and equipment	Over the shorter of 1 to 17 years and the term of lease

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

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

g. Investment properties

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

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

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

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

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

h. Leased assets

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

i. Classification of assets leased to the Group

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

ii. Assets leased out under operating leases

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

iii. Operating lease charges

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

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

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

i. Properties held for/under development

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

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

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

j. Properties for sale

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

k. Goodwill

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

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

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

l. Intangible assets (other than goodwill)

i. Customer acquisition costs

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

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

ii. Carrier licences

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

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

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

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

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

iii. Capitalized programme costs

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

iv. Other intangible assets

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

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

Trademarks	2 to 20 years
Content licence	10 years
Capitalized programme costs	1 to 4 years
Wireless broadband licence	Over the term of licence
Carrier licences	Over the term of licence, commencing from the date of launch of the relevant telecommunication services

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

m. Investments in debt and equity securities

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

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

i. Financial assets at fair value through profit or loss

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

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

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

m. Investments in debt and equity securities *(continued)*

ii. Held-to-maturity investments

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

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

iii. Available-for-sale financial assets

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

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

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

n. Impairment of assets

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

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

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganization; or

– observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets.

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

n. Impairment of assets *(continued)*

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

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

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

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

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

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

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

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

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.

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

n. Impairment of assets *(continued)*

ii. Impairment of other assets

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

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

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

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

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

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

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

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

n. Impairment of assets *(continued)*

iii. Interim financial reporting and impairment

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

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

o. Derivative financial instruments

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

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

p. Hedging

i. Fair value hedge

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

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

ii. Cash flow hedge

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

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

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

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

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

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

q. Inventories

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

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

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

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

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

r. Construction contracts

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

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

s. Trade and other receivables

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

t. Cash and cash equivalents

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

u. Trade and other payables

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

v. Borrowings

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

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

w. Provisions and contingent liabilities

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

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

x. Revenue recognition

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

i. Telecommunications and other services

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

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

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

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

ii. Sales of goods

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

iii. Sales of properties

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

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

iv. Rental income from operating leases

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

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

x. Revenue recognition *(continued)*

v. Contract revenue

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

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

vi. Interest income

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

vii. Commission income

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

viii. Dividend income

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

y. Borrowing costs

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

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

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

z. Income tax

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

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

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

z. Income tax *(continued)*

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

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

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

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

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

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

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

  - the same taxable entity; or

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

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

aa. Employee benefits

i. Short-term employee benefits

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

ii. Retirement benefits

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

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

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

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

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

iii. Share-based payments

The Group operates share option schemes where employees (and including directors) are granted options to acquire shares of the Company at specified exercise prices. The fair value of the employee services received in exchange for the grant of the options is recognized as staff costs in the income statement with a corresponding increase in an employee share-based compensation reserve under equity. The fair value of the options granted is measured at grant date using the trinomial option pricing model, taking into account the terms and conditions upon which the options were granted, and spread over the respective vesting period during which the employees become unconditionally entitled to the options. During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years is charged or credited in the income statement for the year of the review, unless the original staff costs qualify for recognition as an asset, with a corresponding adjustment to the employee share-based compensation reserve. On vesting date, the amount recognized as staff costs is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the employee share-based compensation reserve). The equity amount is recognized in the employee share-based compensation reserve until either the share options are exercised (when it is transferred to the share premium account) or the share options expire (when it is released directly to retained profits or 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.

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

aa. Employee benefits *(continued)*

iii. Share-based payments *(continued)*

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

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

iv. Termination benefits

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

bb. Translation of foreign currencies

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

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

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

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

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

bb. Translation of foreign currencies *(continued)*

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

cc. Related parties

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

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

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

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

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

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

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

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

dd. Segment reporting

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

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

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

ee. Dividend distribution

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Key sources of estimation uncertainty

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

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

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

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

During the year ended December 31, 2011, the Group performed a review to reassess the useful lives of certain exchange equipment, transmission plant and other plant and equipment of the Group, based on the expectations of the Group's operational management and technological trend. The reassessment has resulted in a change in the estimated useful lives of these assets. The Group considers this to be a change in accounting estimate and has therefore accounted for the change prospectively from January 1, 2011. As a result of this change in accounting estimate, the Group's profit for the year ended December 31, 2011 has been increased by HK$67 million and the net assets as at December 31, 2011 have been increased by HK$67 million.

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

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

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

Key sources of estimation uncertainty *(continued)*

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

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

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

iii. Revenue recognition

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

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

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

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

iv. Sales recognition on properties sold

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

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

Key sources of estimation uncertainty *(continued)*

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

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

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

The estimated cost of developing the Cyberport project, including construction costs and the amounts paid and payable to the Government, is allocated to the cost of properties sold on a systematic basis over the life of the project using a relative value approach. This approach considers the value of development costs attributable to phases for which revenue has been recognized to date relative to the total expected value of development costs for the development as a whole. The revision of estimates of these relative values during the year ended December 31, 2011 has resulted in the costs of properties sold recorded in the year ended December 31, 2011 being decreased by HK$151 million.

vi. Deferred income tax

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

vii. Current income tax

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

viii. Recognition of intangible asset – Carrier licences

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

ix. Estimated valuation of investment properties

The best evidence of fair value is current prices in an active market for similar leases and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair values estimates. In making its estimates, the Group considers both (i) information from the valuations of investment properties performed by external professional valuers by using the market value approach and (ii) other principal assumptions including the receipt of contractual rentals, expected future market rentals in view of the current usage and condition of the investment properties, supported by the terms of any existing leases and other contracts, and discount rates to determine the fair value of the investment properties. Had the Group used different future market rentals, discount rates and other assumptions, the fair value of the investment properties would be different and thus caused impact to the consolidated income statement. As at December 31, 2011, the fair value of the investment properties was HK$5,384 million.

5 RELATED PARTY TRANSACTIONS

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

In HK$ million		The Group	
	Note(s)	2010	**2011**
Telecommunications service fees and facility management service charges received or receivable from a jointly controlled company	a & c	74	**66**
Telecommunications service fees and systems integration charges received or receivable from a substantial shareholder	a	241	**372**
Telecommunications service fees, outsourcing fees and rental charges paid or payable to a jointly controlled company	a & c	524	**300**
Telecommunications service fees and facility management service charges paid or payable to a substantial shareholder	a	161	**270**
Key management compensation	b	67	**80**

In addition to the above, a jointly controlled company of a subsidiary (the "JV") issued to the Group a credit note in the amount of approximately HK$491 million in settlement of the Group's claims against the JV. Accordingly, the Group recorded credits to revenue, costs of sales and operating expenses in the amounts of approximately HK$368 million, HK$97 million and HK$26 million, respectively.

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	
	2010	**2011**
Salaries and other short-term employee benefits	64	**78**
Post-employment benefits	3	**2**
	67	**80**

c. Details of transactions with the JV

During the year ended December 31, 2011, the Group, Telstra Corporation Limited ("Telstra") and the JV completed certain transactions which resulted in the transfer to the Group and Telstra of the majority of the JV's assets, business platforms and operations. The Group received assets and business from the JV valued at approximately HK$644 million. The consideration was settled in part by a credit note received from the JV in the sum of approximately HK$491 million and in part by offset against the Company's loan to the JV. As a result, the Group benefited from the recovery of prior investments made in the JV in the amount of approximately HK$104 million, net of related costs and expenses. After the completion of the above transactions, the JV's business scope was significantly simplified to the provision of certain network infrastructure, network maintenance and property management. The JV continues to operate as an outsourcer of telecommunications network services for the Group and Telstra in return for outsourcing fees.

d. Amounts due from/(to) related companies

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

6 TURNOVER

In HK$ million	The Group 2010	2011
Telecommunications and other service revenue	19,553	**20,378**
Amounts received and receivable in respect of goods sold	2,079	**2,272**
Amounts received and receivable in respect of properties sold	1,100	**1,710**
Amounts received and receivable from rental of investment properties	230	**278**
	22,962	**24,638**

7 SEGMENT INFORMATION

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

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

– HKT is the leading provider of telecommunications and related services including local telephony, local data and broadband, international telecommunications, mobile, customer premises equipment sale, outsourcing, consulting and contact centers primarily in Hong Kong, mainland China and elsewhere in the world.

– Media Business includes interactive pay-TV service, Internet portal multimedia entertainment platform and the Group's directories operations in Hong Kong and mainland China.

– Solutions Business offers Information and Communications Technologies services and solutions in Hong Kong and mainland China.

– Pacific Century Premium Developments Limited ("PCPD") covers the Group's property portfolio in Hong Kong and mainland China, including the Cyberport development in Hong Kong, and elsewhere in 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 goodwill, tangible and intangible assets and interests in associates and jointly controlled companies, and the Group's share of results of associates and jointly controlled companies.

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

7 SEGMENT INFORMATION *(CONTINUED)*

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

In HK$ million	HKT (Note a)	Media Business	Solutions Business (Note a)	2010 Other Businesses (Note a)	PCPD	Eliminations	Consolidated
REVENUE							
External revenue	18,177	1,807	1,498	40	1,440	–	22,962
Inter-segment revenue	350	576	541	–	55	(1,522)	–
Total revenue	18,527	2,383	2,039	40	1,495	(1,522)	22,962
RESULTS							
EBITDA	7,249	232	284	(696)	284	–	7,353
OTHER INFORMATION							
Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year	1,613	128	30	11	65	–	1,847

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

a. During the year ended December 31, 2011, the Group has completed an internal reorganization in connection with the HKT Trust Global Offering. As a result, management has made changes to the Group's internal reporting that caused changes to reportable segments and segment presentation. The prior year segment information has been restated to conform with the revised presentation.

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

7 SEGMENT INFORMATION *(CONTINUED)*

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

In HK$ million	The Group	
	2010	**2011**
Total segment EBITDA	7,353	**7,585**
(Loss)/Gain on disposal of property, plant and equipment	(45)	**1**
Depreciation and amortization	(3,800)	**(3,949)**
Other gains, net	1,217	**143**
Interest income	27	**71**
Finance costs	(1,587)	**(1,565)**
Share of results of associates and jointly controlled companies	(82)	**32**
Restructuring costs recognized	(3)	**–**
Profit before income tax	3,080	**2,318**

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	
	2010	**2011**
Hong Kong (place of domicile)	19,308	**20,776**
Mainland China (excluding Hong Kong) and Taiwan	1,783	**2,013**
Others	1,871	**1,849**
	22,962	**24,638**

The total non-current assets other than financial instruments and deferred income tax assets located in Hong Kong is HK$19,403 million (2010: HK$19,208 million), and the total of these non-current assets located in other countries is HK$10,506 million (2010: HK$9,666 million).

8 OTHER GAINS, NET

In HK$ million	The Group	
	2010	**2011**
Net realized gains on disposal of available-for-sale financial assets	10	**–**
Realized gains from investment in available-for-sale financial assets	21	**–**
Net realized gains on disposal of an associate	1	**–**
Provision for impairment of investments	(21)	**–**
Fair value gains on investment properties	1,155	**25**
Recovery of impairment loss on an interest in the JV *(note 5(c))*	–	**104**
Impairment loss on an interest in a jointly controlled company	–	**(16)**
Net gains on cash flow hedging instruments transferred from equity	41	**39**
Others	10	**(9)**
	1,217	**143**

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 2010	2011
Retirement costs for directors	3	**2**
Retirement costs for other staff		
– pension income for defined benefit retirement schemes *(note 31(a)(v))*	(1)	**(1)**
– contributions to defined contribution retirement scheme	223	**243**
	225	**244**
Salaries, bonuses and other benefits	2,365	**2,375**
	2,590	**2,619**

b. Other items

In HK$ million	The Group 2010	2011
Crediting:		
Gain on disposal of property, plant and equipment	–	**1**
Gross rental income	230	**278**
Less: Outgoings	(24)	**(20)**
Charging:		
Impairment loss for doubtful debts	119	**169**
Provision for inventory obsolescence	9	**10**
Depreciation of property, plant and equipment	2,678	**2,549**
Operating costs of property, plant and equipment, net	100	**454**
Amortization of land lease premium		
– interests in leasehold land	23	**22**
Amortization of intangible assets	1,099	**1,378**
Cost of inventories sold	2,056	**2,272**
Cost of properties sold	640	**1,219**
Cost of sales, excluding inventories and properties sold	7,837	**7,906**
Loss on disposal of property, plant and equipment	45	**–**
Exchange losses, net	48	**13**
Less: Cash flow hedges: transferred from equity	(54)	**(11)**
Auditors' remuneration	22	**23**
Operating lease rental		
– equipment	25	**21**
– other assets (including property rentals)	509	**601**

10 FINANCE COSTS

In HK$ million	The Group 2010	2011
Interest paid/payable for:		
Overdrafts and bank borrowings wholly repayable within 5 years	468	**478**
Bank borrowings not wholly repayable within 5 years	52	**–**
Other borrowings wholly repayable within 5 years	990	**1,026**
Other borrowings not wholly repayable within 5 years	39	**–**
Notional accretion on carrier licence fee liabilities	73	**80**
Other borrowing costs	5	**7**
Cash flow hedges: transferred from equity	1	**1**
Fair value losses/(gains) on derivative financial instruments on fair value hedges	88	**(198)**
Fair value adjustment of borrowings attributable to interest rate risk	(80)	**202**
	1,636	**1,596**
Interest capitalized in property, plant and equipment	(49)	**(31)**
	1,587	**1,565**

The capitalization rate used to determine the amount of interest eligible for capitalization for the year ranged from 4.43% to 6.22% (2010: 6.33% to 7.03%).

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 2010									
	Directors' fees		Salaries, allowances and benefits in kind		Bonuses[1]		Retirement scheme contributions		Total	
	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD	PCCW (excluding PCPD)	PCPD
Executive directors										
Li Tzar Kai, Richard	–	–	–	–	–	–	–	–	–	–
Alexander Anthony Arena	–	–	18.75[2]	–	12.45	–	1.41	–	32.61	–
Peter Anthony Allen	–	–	2.40[2]	–	–	–	–	–	2.40	–
Lee Chi Hong, Robert	–	–	–	6.50[3]	–	–	–	0.87	–	7.37
Hui Hon Hing, Susanna[4]	–	–	2.88	0.93	–	–	0.23	0.01	3.11	0.94
Non-executive directors										
Sir David Ford	–	–	2.35	–	–	–	0.01	–	2.36	–
Lu Yimin	0.20[5]	–	–	–	–	–	–	–	0.20	–
Zuo Xunsheng	0.20[6]	–	–	–	–	–	–	–	0.20	–
Li Fushen	0.20[7]	–	–	–	–	–	–	–	0.20	–
Chung Cho Yee, Mico[8]	0.02	–	2.11	–	–	–	–	–	2.13	–
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 Rogerio (Roger) Hyndman Lobo	0.20	–	–	–	–	–	–	–	0.20	–
Aman Mehta	0.40[9]	–	0.66	–	–	–	–	–	1.06	–
The Hon Raymond George Hardenbergh Seitz	0.30[10]	–	0.66	–	–	–	–	–	0.96	–
Tse Sze Wing, Edmund[11]	0.20	–	–	–	–	–	–	–	0.20	–
	2.12	–	29.81	7.43	12.45	–	1.65	0.88	46.03	8.31

Notes:

1 Bonuses in respect of 2009, paid in 2010.
2 Excludes remuneration for duties performed for related companies.
3 Mr Robert Lee offered to waive the basic salary and housing benefits of HK$1.83 million (2009: HK$3.67 million).
4 Appointed as an executive director with effect from May 19, 2010.
5 Fee receivable as a non-executive director in 2010 was surrendered to a subsidiary of China United Network Communications Group Company Limited, in accordance with an arrangement between Mr Lu Yimin and China United Network Communications Group Company Limited, a substantial shareholder of the Company.
6 Fee receivable as a non-executive director in 2010 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.
7 Fee receivable as a non-executive director in 2010 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.
8 Re-designated from an executive director to a non-executive director with effect from May 19, 2010.
9 Includes HK$100,000 fee as Chairman of Nomination Committee and HK$100,000 fee as Chairman of Audit Committee.
10 Includes HK$100,000 fee as Chairman of Remuneration Committee.
11 Re-designated from an independent non-executive director to a non-executive director with effect from March 22, 2011.

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

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

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

Notes:

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

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

b. Individuals with highest emoluments

i. Of the five individuals with the highest emoluments, three (2010: three, including the individual who was appointed as a director on May 19, 2010) are directors of the Company whose emoluments are disclosed in note 11(a).

The emoluments in respect of the two non-director individuals in 2011 and the emoluments of the two non-director individuals and the individual who was appointed as a director on May 19, 2010 whose emoluments as a non-director for the period from January 1, 2010 to May 18, 2010 in 2010 were as follows:

In HK$ million	The Group	
	2010	**2011**
Salaries, allowances and benefits in kind	5.51	**6.61**
Bonuses	16.86	**6.24**
Retirement scheme contributions	0.44	**0.53**
	22.81	**13.38**

ii. The emoluments of the two non-director individuals in 2011 and the emoluments of the two non-director individuals and the individual who was appointed as a director on May 19, 2010 whose emoluments as a non-director for the period from January 1, 2010 to May 18, 2010 in 2010, are within the following emolument ranges:

	The Group Number of individuals	
	2010	**2011**
HK$5,000,001 – HK$5,500,000	1	**–**
HK$6,500,001 – HK$7,000,000	–	**2**
HK$8,000,001 – HK$8,500,000	1	**–**
HK$9,000,001 – HK$9,500,000	1	**–**
	3	**2**

12 INCOME TAX

a. Income tax in the consolidated income statement represents:

In HK$ million	The Group 2010	**2011**
Hong Kong profits tax		
– provision for current year	101	**488**
– over provision in respect of prior years	(169)	**(18)**
Overseas tax		
– provision for current year	49	**58**
– over provision in respect of prior years	(35)	**–**
Movement of deferred income tax *(note 34(a))*	810	**14**
	756	**542**

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits for the year.

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

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

In HK$ million	The Group 2010	**2011**
Profit before income tax	3,080	**2,318**
Notional tax on profit before income tax, calculated at applicable tax rate	508	**382**
Effect of different tax rates of subsidiaries operating overseas	115	**19**
Income not subject to tax	(7)	**(35)**
Expenses not deductible for tax purposes	166	**163**
Tax losses not recognized	139	**126**
Over provision in prior years, net	(204)	**(18)**
Utilization of previously unrecognized tax losses	(24)	**(74)**
Recognition of previously unrecognized tax losses	–	**(74)**
Loss not deductible/(income not subject to tax) for associates and jointly controlled companies	14	**(5)**
Current tax provision of overseas operations	49	**58**
Income tax expense	756	**542**

13 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Profit of HK$169 million (2010: HK$1,949 million) attributable to equity holders of the Company was dealt with in the financial statements of the Company.

14 DIVIDENDS

In HK$ million	2010	**2011**
Interim dividend declared and paid in respect of current year of 5.3 HK cents (2010: 5.1 HK cents) per ordinary share	370	**385**
Final dividend declared in respect of previous financial year, approved and paid during the year of 10.2 HK cents (2010: 13.3 HK cents) per ordinary share	901	**742**
Special dividend in specie (2010: nil)	–	**1,443**
	1,271	**2,570**
Final dividend proposed after the balance sheet date of 10.6 HK cents (2010: 10.2 HK cents) per ordinary share	742	**771**

During the year ended December 31, 2011, PCCW declared a conditional special dividend to be satisfied by way of two distributions in specie of Share Stapled Units representing an aggregate of approximately 5% of the Share Stapled Units in issue immediately following the completion of the HKT Trust Global Offering ("Distributions in Specie"). The Distributions in Specie became unconditional upon the listing of Share Stapled Units on the Main Board of the Stock Exchange on November 29, 2011. Accordingly, the estimated dividend payable of approximately HK$1,443 million was recorded, which is measured at the fair value of approximately 5% of the Share Stapled Units to be distributed on the date when the Distributions in Specie became unconditional.

The first distribution in specie represents a distribution of 158,080,457 Share Stapled Units on the basis of 1 Share Stapled Unit for every integral multiple of 46 ordinary shares of the Company, and will be transferred to eligible shareholders on or around March 2, 2012.

The second distribution in specie represents a distribution of approximately 2.5% of the Share Stapled Units in issue immediately following the completion of the HKT Trust Global Offering, and will be transferred to eligible shareholders, in proportion to their shareholdings in the Company as at March 20, 2012, on or before May 22, 2012.

The final dividend proposed after the balance sheet date for 2011 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:

	2010	**2011**
Earnings (in HK$ million)		
Earnings for the purpose of basic and diluted earnings per share	1,926	**1,607**
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	6,940,787,805	**7,272,294,654**

16 PROPERTY, PLANT AND EQUIPMENT

In HK$ million	The Group 2010					
	Land and buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	Total
Cost						
Beginning of year	1,263	12,548	14,256	10,745	1,009	39,821
Additions	10	538	426	353	520	1,847
Additions through acquisition of subsidiaries	–	–	–	1	–	1
Transfers	–	585	105	117	(966)	(159)
Disposals	(2)	(660)	(386)	(152)	–	(1,200)
Exchange differences	9	121	99	13	–	242
End of year	1,280	13,132	14,500	11,077	563	40,552
Accumulated depreciation and impairment						
Beginning of year	268	8,841	6,769	7,636	7	23,521
Charge for the year	47	1,014	863	754	–	2,678
Transfers	–	(51)	–	–	–	(51)
Disposals	(1)	(623)	(380)	(145)	–	(1,149)
Exchange differences	2	27	67	5	–	101
End of year	316	9,208	7,319	8,250	7	25,100
Net book value						
End of year	964	3,924	7,181	2,827	556	15,452
Beginning of year	995	3,707	7,487	3,109	1,002	16,300

16 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

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

Certain property, plant and equipment with an aggregate carrying value of approximately HK$67 million (2010: HK$72 million) were pledged as security for certain bank borrowings of the Group as at December 31, 2011. Please refer to note 41 for details of the Group's bank loan facilities.

16 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

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

In HK$ million	The Group 2010	The Group **2011**
Held in Hong Kong		
On long-term lease (over 50 years)	102	**98**
On medium-term lease (10–50 years)	756	**719**
Held outside Hong Kong		
Freehold	68	**122**
Leasehold		
On long-term lease (over 50 years)	1	**–**
On medium-term lease (10–50 years)	37	**37**
	964	**976**

In HK$ million	The Company 2010 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 **2011 Other plant and equipment**
Cost	
Beginning of year	**2**
Disposals	**(2)**
End of year	**–**
Accumulated depreciation and impairment	
Beginning of year	**2**
Disposals	**(2)**
End of year	**–**
Net book value	
Beginning and end of year	**–**

17 INVESTMENT PROPERTIES

In HK$ million	The Group 2010	**2011**
Beginning of year	3,794	**5,085**
Additions	–	**35**
Exchange differences	136	**239**
Fair value gains	1,155	**25**
End of year	5,085	**5,384**

The majority of the investment properties are held outside Hong Kong and they were revalued as at December 31, 2011 by an independent valuer, who is a fellow of the Royal Institution of Chartered Surveyors, on a market value basis.

In the consolidated income statement, cost of sales includes HK$20 million (2010: HK$24 million) direct operating expenses relating to investment properties that generate rental income and HK$5 million (2010: HK$11 million) direct operating expenses relating to investment properties that were unlet.

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

In HK$ million	The Group 2010	**2011**
Held in Hong Kong		
On medium-term lease (10–50 years)	12	**12**
Held outside Hong Kong		
On long-term lease (over 50 years)	913	**913**
On medium-term lease (10–50 years)	4,160	**4,459**
	5,085	**5,384**

The Group leases out properties under operating leases. The majority of the leases typically run for a period of 1 to 15 years. None of the leases include contingent rentals.

As at December 31, 2011, the total future minimum lease receipts in respect of investment properties under non-cancellable operating leases are receivables as follows:

In HK$ million	The Group 2010	**2011**
Within 1 year	236	**195**
After 1 year but within 5 years	361	**334**
After 5 years	103	**97**
	700	**626**

Investment properties with a carrying value of approximately HK$5,370 million (2010: HK$5,074 million) were pledged as security for certain bank borrowings of the Group as at December 31, 2011. Please refer to note 41 for details of the Group's bank loan facilities.

18 INTERESTS IN LEASEHOLD LAND

In HK$ million	The Group 2010	2011
Cost		
Beginning and end of year	823	**823**
Accumulated amortization		
Beginning of year	248	**271**
Charge for the year	23	**22**
End of year	271	**293**
Net book value		
End of year	552	**530**
Beginning of year	575	**552**

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

In HK$ million	The Group 2010	2011
Held in Hong Kong		
On long-term lease (over 50 years)	87	**84**
On medium-term lease (10–50 years)	455	**436**
Held outside Hong Kong		
On medium-term lease (10–50 years)	10	**10**
	552	**530**

As at December 31, 2011, there was no leasehold land included in properties under development (2010: nil).

19 PROPERTIES HELD FOR/UNDER DEVELOPMENT/FOR SALE

In HK$ million	The Group 2010	2011
Properties under development	428	**487**
Properties held for development *(note b)*	624	**618**
	1,052	**1,105**
Less: Properties held for/under development classified as non-current assets	(1,052)	**(1,105)**
Properties under development classified as current assets	–	**–**
Properties for sale classified as current assets *(note a)*	772	**455**
	772	**455**

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. The construction of residential portion of the Cyberport project was completed in November 2008.

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

20 GOODWILL

In HK$ million	The Group 2010	2011
Cost		
Beginning of year	3,262	**3,336**
Acquisition of subsidiaries	55	**–**
Addition upon finalization of contingent consideration	12	**–**
Exchange differences	7	**–**
End of year	3,336	**3,336**
Accumulated impairment		
Beginning and end of year	166	**166**
Carrying amount		
End of year	3,170	**3,170**
Beginning of year	3,096	**3,170**

20 GOODWILL *(CONTINUED)*

Impairment tests for CGUs containing goodwill

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

In HK$ million	The Group 2010	2011
TSS		
PCCW Global	585	**585**
IP BPO Holdings Pte. Ltd. and its subsidiaries	204	**204**
	789	**789**
Mobile	1,939	**1,939**
Media Business	162	**162**
Solutions Business	126	**126**
PCPD	91	**91**
Others		
UK Broadband Limited and its subsidiaries	59	**59**
Others	4	**4**
	63	**63**
Total	3,170	**3,170**

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 terminal 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:

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

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

There was no indication of impairment arising from the review on goodwill as at October 31, 2011.

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

21 INTANGIBLE ASSETS

In HK$ million				The Group 2010			
	Trademarks	Content licence	Wireless broadband licences	Carrier licences	Customer acquisition costs	Others	Total
Cost							
Beginning of year	1,518	375	180	207	1,503	12	3,795
Additions through acquisition of subsidiaries	–	–	–	–	–	2	2
Additions	–	–	153	545	1,058	1	1,757
Write-off	–	–	–	–	(941)	–	(941)
Exchange differences	–	–	(6)	–	2	–	(4)
End of year	1,518	375	327	752	1,622	15	4,609
Accumulated amortization and impairment							
Beginning of year	711	375	115	54	804	8	2,067
Charge for the year *(note a)*	76	–	20	43	958	2	1,099
Write-off	–	–	–	–	(941)	–	(941)
Exchange differences	–	–	(4)	–	–	–	(4)
End of year	787	375	131	97	821	10	2,221
Net book value							
End of year	731	–	196	655	801	5	2,388
Beginning of year	807	–	65	153	699	4	1,728

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

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 2010	2011
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 (2010: 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 2010	2011
Amounts due from subsidiaries	60,102	**59,263**
Less: Provision for impairment	(41,840)	**(41,840)**
	18,262	**17,423**

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

As at December 31, 2011, 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$110 million (2010: US$111 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.

22 INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

As at December 31, 2011, 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	Interest held by the Company Indirectly
HKT Limited	Cayman Islands/ Hong Kong	Investment holding	HK$3,208,365.39 ordinary shares and HK$3,208,365.39 preference shares	–	68%
HKT Group Holdings Limited ("HKTGH")	Cayman Islands	Investment holding	US$636,000,002	–	68%
Hong Kong Telecommunications (HKT) Limited ("HKTL")	Hong Kong	Provision of telecommunications services	HK$2,488,200,001	–	68%
HKT Services Limited	Hong Kong	Provision of management services to group companies	HK$1	–	68%
Esencia Investments Limited	British Virgin Islands	Investment holding	US$1	–	100%
Great Epoch Holdings Limited	British Virgin Islands	Investment holding	US$1	–	100%
PCCW-HKT Technical Services Limited	Hong Kong	Provision of technical support services, electronics and communications engineering, products and solutions	HK$700,002	–	100%
PCCW Mobile HK Limited	Hong Kong	Provision of mobile services to its customers, which is procured from HKTL and the sale of mobile phones and accessories	HK$100 ordinary shares and HK$1,254,000,000 non-voting deferred shares	–	68%
PCCW Media Limited	Hong Kong	Provision of pay television programme services, interactive multimedia services, the sale of advertising in various telephone directories, the publishing of those directories in Hong Kong and the sale of advertising on the Internet	HK$3,500,000,097 ordinary shares, HK$1 "A" Class share and HK$4 "B" Class shares	–	100%
PC Music Holdings Limited	British Virgin Islands	Investment holding	US$11	–	100%
PCCW Productions Limited	Hong Kong	Production of content for different media	HK$2	–	100%
PCCW Teleservices (Hong Kong) Limited	Hong Kong	Provision of customer relationship management and customer contact management solutions and services	HK$12	–	68%
PCCW Teleservices Operations (Hong Kong) Limited	Hong Kong	Provision of customer relationship management and customer contact management solutions and services	HK$2	–	68%
廣州電盈綜合客戶服務技術發展有限公司[2] (PCCW Customer Management Technology and Services (Guangzhou) Limited[3])	The PRC	Customer service and consultancy	HK$53,803,000	–	68%
PCCW (Macau), Limitada	Macau	Selling customer premises equipment and related solutions, conducting systems integration projects and providing outsourced call center services	MOP2,000,000	–	51%
PCCW Teleservices (US), Inc.	Nebraska, U.S.A.	Telemarketing and direct marketing services	US$1,169	–	57.8%

(Amount expressed in Hong Kong dollars unless otherwise stated)

22 INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

Company name	Place of incorporation/ operations	Principal activities	Nominal value of issued capital/ registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly
PCCW Global (HK) Limited	Hong Kong	Provision of satellite-based and network-based telecommunications services	HK$10	–	68%
PCCW Global Limited	Hong Kong/ Dubai Technology and Media Free Zone	Provision of network-based telecommunications services	HK$2	–	68%
PCCW Global, Inc.	Delaware, U.S.A.	Supply of broadband internet access solutions and web services	US$18.01	–	68%
PCCW Global (Singapore) Pte. Ltd.	Singapore	Telecommunication solutions related services	S$172,124,441.71	–	68%
HKT Global (Singapore) Pte. Ltd.	Singapore	Provision of telecommunications solutions related services	S$60,956,485.64	–	68%
PCCW Global (UK) Limited	United Kingdom	Provision of network-based telecommunications services to customers, and the provision of sales and marketing services to related companies	GBP1	–	68%
電訊盈科（北京）有限公司 (PCCW (Beijing) Limited[3])	The PRC	Systems integration, consulting and informatization project	US$10,250,000	–	100%
Unihub China Information Technology Company Limited[1]	The PRC	Selling of hardware and software and information system consulting services	RMB200,000,000	–	26%
PCCW Solutions Limited	Hong Kong	Provision of computer services and IP/IT related value-added services to business customers	HK$1,201	–	100%
電訊盈科信息技術(廣州)有限公司[2] (PCCW Solutions (Guangzhou) Limited[3])	The PRC	Systems integration and technology consultancy	HK$12,600,000	–	100%
PCCW Business eSolutions Limited	Hong Kong	Provision of IP/IT related value-added services to business customers	HK$2	–	100%
PCCW Powerbase Data Center Services (HK) Limited	Hong Kong	Provision of data center services	HK$2	–	100%
Power Logistics Limited	Hong Kong	Logistics, printing, business process and ICT solutions	HK$100,000	–	100%
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	Japan	Ski operation	JPY405,000,000	–	61.53%
UK Broadband Limited	United Kingdom	Public fixed wireless access licence businesses	GBP1	–	100%
UKB Solutions Limited (formerly known as 802 Limited)	United Kingdom	Public fixed wireless access licence businesses	GBP100,000	–	100%

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

Notes:
1 Represents a sino-foreign equity joint venture.
2 Represents a wholly foreign owned enterprise.
3 Unofficial Company name.

23 INTERESTS IN ASSOCIATES

In HK$ million	The Group 2010	2011
Share of net assets of associates	292	**389**
Loans due from associates	78	**149**
Amount due from an associate	34	**35**
	404	**573**
Provision for impairment	(171)	**(171)**
	233	**402**
Investments at cost, unlisted shares	551	**635**

Other than two loans with fixed terms of repayment to an associate of approximately HK$43 million (2010: nil) repayable in 1 to 2 years bears interest at a fixed rate of 5.0% per annum and HK$28 million (2010: nil) repayable in 1 year bears interest at a fixed rate of 6.5% per annum, balances with associates are non-interest bearing and have no fixed terms of repayment. All of the balances due from associates are unsecured.

As at December 31, 2011, particulars of the principal associates of the Group are as follows:

Company name	Place of incorporation	Principal activities	Nominal value of issued capital/ registered capital	Interest held by the Company Directly	Indirectly
Abacus Distribution Systems (Hong Kong) Limited	Hong Kong	Provision of computer reservation systems and travel related services	HK$15,600,000	–	37.04%
石化盈科信息技術有限責任公司 (Petro-CyberWorks Information Technology Company Limited*)	The PRC	Design and development of Enterprise Resource Planning systems, and customer relationship management systems	RMB50,000,000	–	45%
東莞捷通達電訊有限公司 (Dongguan Jietongda Telecommunications Company Limited*)	The PRC	Provision of support service for mobile service subscription, sales of mobile phones and accessories	RMB40,000,000	–	23.8%

* Unofficial company name

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

In HK$ million	2010	2011
Total assets	1,182	**2,057**
Total liabilities	(651)	**(1,342)**
Turnover	1,280	**1,906**
Profit after income tax	107	**95**

During the year ended December 31, 2011, the Group did not have any unrecognized share of losses of associates (2010: nil). As at December 31, 2011, the accumulated share of losses of the associates unrecognized by the Group was nil (2010: nil).

24 INTERESTS IN JOINTLY CONTROLLED COMPANIES

In HK$ million	The Group 2010	2011
Share of net assets of jointly controlled companies	3,055	**3,068**
Loans due from jointly controlled companies	268	**309**
Amounts due from jointly controlled companies	23	**23**
	3,346	**3,400**
Provision for impairment	(2,869)	**(2,885)**
	477	**515**
Investments at cost, unlisted shares	3,637	**3,653**

Balances with jointly controlled companies are unsecured and non-interest bearing, and have no fixed terms of repayment except that the loan due from a jointly controlled company of HK$301 million (2010: HK$260 million) bears interests at HIBOR plus 3% per annum.

As at December 31, 2011, 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	–	34%
China Netcom Broadband Corporation Limited	The PRC	Internet access services business, information services business and resale of broadband resources, etc.	RMB644,518,697	–	34%
Genius Brand Limited	Hong Kong	Provision of mobile telecommunications services in Hong Kong	HK$10,000	–	34%

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

In HK$ million	2010	2011
Non-current assets	1,366	**1,101**
Current assets	518	**402**
Total assets	1,884	**1,503**
Non-current liabilities	(1,673)	**(1,032)**
Current liabilities	(723)	**(748)**
Net liabilities	(512)	**(277)**
Non-controlling interests	(226)	**(147)**
Equity attributable to equity holders of the company	(738)	**(424)**
Turnover	2,030	**1,002**
Expenses	(2,147)	**(661)**
(Loss)/profit before income tax	(117)	**341**
Income tax	(4)	**(6)**
(Loss)/profit after income tax	(121)	**335**
Non-controlling interests	(11)	**(14)**
(Loss)/profit for the year attributable to equity holders of the company	(132)	**321**

25 AVAILABLE-FOR-SALE FINANCIAL ASSETS

In HK$ million	The Group 2010	2011
Beginning of year	325	**281**
Additions	28	**229**
Return of investment	(64)	**–**
Disposals	(14)	**(31)**
Net gains transferred to equity	27	**96**
Impairment loss recognized	(21)	**–**
End of year	281	**575**

In HK$ million	The Group 2010	2011
Listed equity securities – overseas	56	**78**
Unlisted equity securities	225	**497**
	281	**575**
Market value of listed equity securities	56	**78**

As at December 31, 2011, the Group's equity securities were individually reviewed for impairment by management. Consequently, there was no provision for impairment (2010: impairment loss of HK$21 million) recognized in the consolidated income statement for the year ended December 31, 2011. The Group does not hold any collateral over these balances.

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

During the year ended December 31, 2010, available-for-sale financial assets with a carrying value of approximately HK$14 million were sold and there was a transfer from equity on disposal of HK$10 million. As a result, a realized gain of approximately HK$10 million was recognized and included in "Other gains, net" in the consolidated income statement.

No available-for-sale financial assets were pledged as security for bank borrowings of the Group as at December 31, 2011 (2010: nil).

26 CURRENT ASSETS AND LIABILITIES

a. Sales proceeds held in stakeholders' accounts

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

b. Restricted cash

The balance of the Group mainly represented a restricted cash balance of approximately HK$696 million as at December 31, 2011 (2010: HK$2,245 million) held in specific bank accounts, the uses of which are specified in the Cyberport Project Agreement.

26 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

c. Prepayments, deposits and other current assets

Included in prepayments, deposits and other current assets of the Group were prepaid programme costs of approximately HK$319 million as at December 31, 2011 (2010: HK$122 million).

d. Inventories

In HK$ million	The Group 2010	2011
Work-in-progress	704	**594**
Finished goods	163	**429**
Consumable inventories	90	**143**
	957	**1,166**

e. Trade receivables, net

In HK$ million	The Group 2010	2011
Trade receivables *(note i)*	2,735	**3,256**
Less: Impairment loss for doubtful debts *(note ii)*	(206)	**(172)**
Trade receivables, net	2,529	**3,084**

i. Aging of trade receivables

In HK$ million	The Group 2010	2011
0 – 30 days	1,464	**1,678**
31 – 60 days	308	**497**
61 – 90 days	185	**212**
91 – 120 days	96	**132**
Over 120 days	682	**737**
	2,735	**3,256**

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 2010	2011
Beginning of year	302	**206**
Impairment loss recognized	119	**169**
Uncollectible amounts written off	(215)	**(203)**
End of year	206	**172**

As at December 31, 2011, the Group's trade receivables of HK$115 million (2010: HK$154 million) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific provision for doubtful debts of HK$115 million (2010: HK$154 million) was recognized. The Group does not hold any collateral over these balances.

iii. Trade receivables that are not impaired

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

In HK$ million	The Group 2010	2011
Neither past due nor impaired	1,278	**1,609**
0 – 30 days past due	417	**466**
31 – 60 days past due	164	**238**
61 – 90 days past due	129	**127**
Over 90 days past due	541	**644**
Past due but not impaired	1,251	**1,475**
	2,529	**3,084**

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

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

Certain trade receivables with an aggregate carrying value of approximately HK$37 million (2010: HK$44 million) were pledged as security for certain bank borrowings of the Group as at December 31, 2011. Please refer to note 41 for details of the Group's bank loan facilities.

26 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

f. Short-term borrowings

In HK$ million	The Group 2010	2011
US$1,000 million 7.75% guaranteed notes due 2011 *(note i)*	7,772	**–**
Bank borrowings *(note ii)*	28	**40**
	7,800	**40**
Secured *(note ii)*	28	**40**
Unsecured	7,772	**–**

i. US$1,000 million 7.75% guaranteed notes due 2011
In November 2001, PCCW-HKT Capital Limited, an indirect non-wholly owned subsidiary of the Group, issued US$1,000 million 7.75% guaranteed notes due November 2011 (the "Notes due 2011") (interest rate subsequently adjusted to 8% pursuant to an interest step-up provision).

The Notes due 2011 were unconditionally and irrevocably guaranteed by PCCW-HKT Telephone Limited ("HKTC"), HKTGH and HKTL and ranked pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC, HKTGH and HKTL.

The Notes due 2011 were fully redeemed in November 2011 and were delisted from the Luxembourg Stock Exchange.

ii. Bank borrowings
On September 22, 2009, a non-wholly owned subsidiary of the Company entered into a term loan facility up to an aggregate amount of RMB10 million (the "RMB Facility"). As at December 31, 2011, RMB7.5 million (2010: RMB10 million) of the RMB Facility was utilized and was secured by the assets owned by the non-wholly owned subsidiary.

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. The Group has not utilized the HKD Facility as at December 31, 2011 (2010: same).

On January 31, 2011, a non-wholly owned subsidiary of the Company entered into a term loan facility and a revolving loan facility up to an aggregate amount of US$7.5 million (the "USD Facility"). As at December 31, 2011, short-term borrowings of US$3.9 million (approximately HK$31 million) and long-term borrowings of US$0.2 million (approximately HK$2 million) of the USD Facility was utilized and was secured by the assets owned by the non-wholly owned subsidiary. As at December 31, 2010, short-term borrowings of US$3.6 million (approximately HK$28 million) of the USD Facility was utilized and was secured by the assets owned by the non-wholly owned subsidiary.

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

g. Trade payables

The aging of trade payables is set out below:

In HK$ million	The Group 2010	2011
0 – 30 days	901	**791**
31 – 60 days	184	**111**
61 – 90 days	30	**55**
91 – 120 days	15	**38**
Over 120 days	575	**782**
	1,705	**1,777**

27 LONG-TERM BORROWINGS

In HK$ million	The Group 2010	2011
Repayable within a period		
– over one year, but not exceeding two years	12	**8,123**
– over two years, but not exceeding five years	18,334	**15,347**
– over five years	8,695	**–**
	27,041	**23,470**
Representing:		
US$500 million 6% guaranteed notes due 2013 *(note a)*	3,879	**3,881**
US$500 million 5.25% guaranteed notes due 2015 *(note b)*	3,866	**3,867**
US$500 million 4.25% guaranteed notes due 2016 *(note c)*	3,773	**3,979**
Bank borrowings	15,523	**11,743**
	27,041	**23,470**
Secured *(note d)*	12	**2**
Unsecured	27,029	**23,468**

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

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

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

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

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

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

d. Secured bank borrowings

The secured bank borrowings as at December 31, 2010 were reclassified as short-term borrowings as at December 31, 2011. Please refer to note 26(f)(ii) for more details.

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

28 AMOUNT PAYABLE TO THE GOVERNMENT UNDER THE CYBERPORT PROJECT AGREEMENT

In HK$ million	The Group 2011 Government share under the Cyberport Project Agreement	Others	Total
Beginning of year	**1,574**	**32**	**1,606**
Addition to amount payable	**1,100**	**2**	**1,102**
Settlement during the year	**(2,105)**	**–**	**(2,105)**
End of year, classified as current liabilities	**569**	**34**	**603**

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

29 DERIVATIVE FINANCIAL INSTRUMENTS

In HK$ million	The Group 2010	**2011**
Non-current assets		
Fixed-to-fixed cross currency swap contracts – cash flow hedges *(note a)*	152	**114**
Fixed-to-floating cross currency swap contracts – cash flow hedges *(note b)*	–	**31**
Fixed-to-floating cross currency swap contracts – fair value hedges *(note b)*	–	**130**
	152	**275**
Current assets		
Fixed-to-fixed cross currency swap contracts – cash flow hedges *(note a)*	17	**–**
Non-current liabilities		
Fixed-to-floating cross currency swap contracts – cash flow hedges *(note b)*	(34)	**–**
Fixed-to-floating cross currency swap contracts – fair value hedges *(note b)*	(68)	**–**
	(102)	**–**

As at December 31, 2011, the Group had outstanding cross currency swap contracts with notional contract amounts of US$1,500 million (approximately HK$11,664 million) (2010: US$2,500 million (approximately HK$19,454 million)) at various rates, to manage the Group's exposure to foreign currency fluctuations and interest rate risk.

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

29 DERIVATIVE FINANCIAL INSTRUMENTS *(CONTINUED)*

a. All of the fixed-to-fixed cross currency swap contracts outstanding as at December 31, 2011 with notional contract amounts of US$1,000 million (approximately HK$7,776 million) (2010: US$2,000 million (approximately HK$15,563 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 (2010: 7.7790 to 7.8014) for the notional amounts (see note 38(c)(i)). Gains and losses recognized in the hedging reserve under equity on these cross currency swap contracts will be continuously released to the income statement until the repayment of the borrowings.

b. The Group has entered into fixed-to-floating cross currency swap contracts outstanding as at December 31, 2011 with notional contract amounts of US$500 million (approximately HK$3,888 million) (2010: US$500 million (approximately HK$3,891 million). Maturity of these swaps matches with the maturity of the underlying fixed rate borrowings and has fixed the USD/HKD exchange rate at 7.7708 to 7.7711 (2010: 7.7708 to 7.7711)for the notional amounts (see note 38(c)(i)). The swaps also pre-determined the interest rates at HIBOR +2.24% (2010: HIBOR+2.24%) (see note 38(c)(ii)).

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

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

Those swap contracts designated as fair value hedges will offset the impact of future changes in interest rates on the fair value of the underlying fixed-rate debt obligations. The swap contracts were reflected at fair value in the consolidated balance sheet and the related portion of fixed-rate debt being hedged was reflected at an amount equal to the sum of its carrying amount plus an adjustment representing the change in fair value of the debt obligations attributable to the interest rate risk being hedged. Changes in the fair value of the swap contracts and the corresponding changes in the adjusted carrying amount of the related portion of the fixed-rate debt being hedged, are recognized as adjustments in "Finance costs" in the consolidated income statement. The net effect recognized in the "Finance costs" represents the ineffective portion of the hedging relationship, amounted to approximately HK$4 million for the current year (2010: HK$8 million).

30 SHARE CAPITAL

	2010		**2011**	
	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	**7,272,294,654**	**1,818**
Issue of ordinary shares *(note a)*	500,000,000	125	**–**	**–**
End of year	7,272,294,654	1,818	**7,272,294,654**	**1,818**

a. The Company issued 500,000,000 ordinary shares on August 31, 2010 of HK$0.25 at a price of HK$2.60 per share. The proceeds from the placement of shares were approximately HK$1,300 million (before deduction of expenses). The proceeds were used for general corporate purposes.

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, 2011 and was prepared by Ms Wing Lui of Towers Watson Hong Kong Limited, a fellow of the Society of Actuaries of the United States of America, using the projected unit credit method. The actuary was of the opinion that the fair value of the scheme assets was sufficient to cover 89% (2010: 75%) of the present value of the defined benefit obligations as at December 31, 2011.

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

In HK$ million	The Group 2010	2011
Present value of the defined benefit obligations *(note iii)*	261	**324**
Fair value of scheme assets *(note iv)*	(195)	**(189)**
	66	**135**
Unrecognized actuarial losses	(62)	**(132)**
Defined benefit liability in the consolidated balance sheet	4	**3**

No employer's contributions are expected to be paid to the scheme in 2012.

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

	The Group 2010	2011
Equity securities	–	**–**
Cash or short-term fixed deposits	–	**–**
Other (insurance fund)	100%	**100%**
	100%	**100%**

As at December 31, 2011, the scheme assets do not include any ordinary shares issued by the Company (2010: Nil).

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

In HK$ million	The Group 2010	2011
Beginning of year	286	**261**
Benefits paid	(12)	**(12)**
Interest cost	7	**8**
Actuarial (gains)/losses	(20)	**67**
End of year	261	**324**

31 EMPLOYEE RETIREMENT BENEFITS *(CONTINUED)*

a. Defined benefit retirement schemes *(continued)*

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

In HK$ million	The Group 2010	2011
Beginning of year	201	**195**
Benefits paid	(12)	**(12)**
Expected return on scheme assets	11	**11**
Actuarial losses	(5)	**(5)**
End of year	195	**189**

v. Income recognized in the consolidated income statement is as follows:

In HK$ million	The Group 2010	2011
Interest cost	7	**8**
Expected return on scheme assets	(11)	**(11)**
Net actuarial losses recognized during the year	3	**2**
	(1)	**(1)**
Total included in General and administrative expenses – retirement costs for other staff *(note 9(a))*	(1)	**(1)**
Actual return on scheme assets	6	**6**

vi. The principal actuarial assumptions used (expressed as weighted averages) are as follows:

	The Group 2010	2011
Discount rate	3.10%	**1.50%**
Expected rate of return on scheme assets	5.75%	**6.00%**
Future pension increase	3.00%	**3.00%**

The expected rate of return on scheme assets is based on the long-term benchmark allocation of the scheme.

vii. Historical information:

In HK$ million	The Group 2007	2008	2009	2010	2011
Present value of the defined benefit obligations	253	352	286	261	**324**
Fair value of scheme assets	(206)	(204)	(201)	(195)	**(189)**
Deficit in the scheme	47	148	85	66	**135**
Experience losses/(gains) on scheme liabilities	3	(1)	8	(2)	**5**
Experience losses on scheme assets	2	2	2	5	**5**

(Amount expressed in Hong Kong dollars unless otherwise stated)

31 EMPLOYEE RETIREMENT BENEFITS *(CONTINUED)*

b. Defined contribution retirement schemes

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

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

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

32 EQUITY COMPENSATION BENEFITS

a. Share option schemes of the Company

The Company has a share option scheme (the "1994 Scheme") which was adopted in September 1994 and amended in May 2002 under which the board of directors (the "Board") of the Company may, at its discretion, invite employees of the Group, including directors of any company in the Group, and other eligible persons, to take up options to subscribe for shares of the Company. The vesting period and exercise period of the options are determined by the Board but in any case no options can be exercised later than 10 years from the date of grant. Each option gives the holder the right to subscribe for one share. The 1994 Scheme was due to expire in September 2004.

At the Company's annual general meeting held on May 19, 2004, the shareholders of the Company approved the termination of the 1994 Scheme and the adoption of a new share option scheme (the "2004 Scheme"). Since May 19, 2004, the Board may, at its discretion, grant share options to any eligible person to subscribe for shares in the Company subject to the terms and conditions stipulated in the 2004 Scheme. The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2004 Scheme and any other share option schemes including 1994 Scheme must not exceed 30% of the shares in issue from time to time. In addition, the maximum number of shares which may be granted under the 2004 Scheme must not exceed 10% of the Company's issued share capital as at May 19, 2004 (or some other date if renewal of this limit is approved by shareholders). The exercise price of the options under the 2004 Scheme shall be determined by the Board at its absolute discretion but in any event shall not be less than the highest of (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, (ii) the average closing price of the shares as stated in the daily quotations sheet of the Stock Exchange for the five days last preceding the date of grant on which days it has been possible to trade shares on the Stock Exchange, and (iii) the nominal value of a share on the date of grant. The vesting period and exercise period of the options are determined by the Board, but no option can be exercised later than the day last preceding the tenth anniversary of the date of grant in respect of such option. In general, the subscription price is determined by reference to the closing prices of the shares as stated in the daily quotations sheet of the Stock Exchange. The basis for determination of the subscription price and the total number of shares that can be granted to eligible persons are precisely specified in the rules of the 2004 Scheme. The 2004 Scheme does not specify a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

i. Movements in the number of share options outstanding and their related weighted average exercise prices

	2010		**2011**	
	Weighted average exercise price HK$	Number of options	**Weighted average exercise price HK$**	**Number of options**
Beginning of year	12.45	82,837,597	**6.57**	**67,709,617**
Cancelled/Lapsed *(note iii)*	38.76	(15,127,980)	**11.11**	**(20,615,379)**
End of year *(note ii)*	6.57	67,709,617	**4.58**	**47,094,238**
Exercisable at end of year	6.57	67,709,617	**4.58**	**47,094,238**

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 2010	Number of options **2011**
January 22, 2001 to February 20, 2001	January 22, 2001 to January 22, 2005	January 22, 2001 to January 22, 2011	16.8400	10,491,559	**–**
February 8, 2001	February 8, 2002 to February 8, 2004	February 8, 2002 to February 8, 2011	18.7600	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	1,039,000	**–**
July 16, 2001 to September 15, 2001	July 16, 2002 to July 16, 2004	July 16, 2002 to July 16, 2011	9.1600	169,120	**–**
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	5,480,000	**5,480,000**
July 25, 2003	July 25, 2004 to July 25, 2006	July 25, 2004 to July 23, 2013	4.3500	50,149,538	**41,320,538**
September 16, 2003	September 16, 2004 to September 16, 2006	September 16, 2004 to September 14, 2013	4.9000	7,000	**7,000**
				67,709,617	**47,094,238**

The range of exercise prices and the weighted average remaining contractual life of the share options outstanding are as follows:

Range of exercise prices	2010 Weighted average remaining contractual life (years)	2010 Number of options	**2011 Weighted average remaining contractual life (years)**	**2011 Number of options**
HK$4.01 to 5.04	2.56	50,156,538	**1.56**	**41,327,538**
5.05 to 7.54	1.87	5,480,000	**0.87**	**5,480,000**
7.55 to 11.29	0.56	1,494,820	**0.49**	**286,700**
16.80 to 25.04	0.06	10,578,259	**N/A**	**–**
		67,709,617		**47,094,238**

(Amount expressed in Hong Kong dollars unless otherwise stated)

32 EQUITY COMPENSATION BENEFITS *(CONTINUED)*

a. Share option schemes of the Company *(continued)*

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

Exercise period	Exercise price HK$	Number of options 2010	2011
January 22, 2001 to January 22, 2011	16.8400	164,200	**10,491,559**
February 8, 2001 to February 8, 2010	75.2400	86,700	**–**
May 26, 2001 to August 26, 2010	60.1200	6,461,600	**–**
March 15, 2001 to October 27, 2010	24.3600	7,554,026	**–**
May 26, 2001 to April 17, 2011	10.3000	8,640	**1,039,000**
February 8, 2002 to February 8, 2011	18.7600	–	**86,700**
July 16, 2002 to July 16, 2011	9.1600	25,480	**169,120**
November 13, 2003 to November 12, 2012	6.1500	380,000	**–**
July 25, 2004 to July 23, 2013	4.3500	447,334	**8,829,000**
		15,127,980	**20,615,379**

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 2010	2011
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.

32 EQUITY COMPENSATION BENEFITS *(CONTINUED)*

c. Share option schemes of PCPD *(continued)*

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, 2010 and 2011 and no share options were outstanding at December 31, 2011 under such scheme.

Details of share options granted by PCPD pursuant to the 2003 PCPD Scheme and the share options outstanding, are as follows:

i. Movements in the number of share options outstanding and their related weighted average exercise prices

	2010		**2011**	
	Weighted average exercise price HK$	Number of options	**Weighted average exercise price HK$**	**Number of options**
Beginning and end of year *(note ii)*	2.375	5,000,000	**2.375**	**5,000,000**
Exercisable at end of year	2.375	5,000,000	**2.375**	**5,000,000**

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

Date of grant	Vesting period	Exercise period	Exercise price HK$	Number of options 2010	**2011**
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, 2011 had a weighted average remaining contractual life of 3 years (2010: 4 years).

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

32 EQUITY COMPENSATION BENEFITS *(CONTINUED)*

d. Equity compensation benefit of the HKT Trust and HKT

i. 2011-2021 Share Stapled Units option scheme of the HKT Trust and HKT

On November 7, 2011 (the "Adoption Date"), the HKT Trust and HKT conditionally adopted a Share Stapled Units option scheme ("HKT 2011-2021 Option Scheme") which has become effective upon listing, to enable the HKT Trust and HKT, acting jointly by mutual agreement between them, to grant options to (a) any full-time or part-time employees of HKT and/or any of its subsidiaries, (b) any director (including executive, non-executive and independent non-executive director) of HKT and/or any of its subsidiaries; and (c) any consultant or adviser (whether professional or otherwise and whether on an employment or contractual or honorary basis or otherwise and whether paid or unpaid), distributor, contractor, supplier, service provider, agent, customer and business partner of HKT and/or any of its subsidiaries ("Eligible Participants") as incentives or rewards for their contribution to the growth of HKT Group and to provide HKT Group with a more flexible means to reward, remunerate, compensate and/or provide benefits to the Eligible Participants.

No Share Stapled Units option has been granted under the HKT 2011-2021 Option Scheme since the Adoption Date. Accordingly, there were no outstanding options under the HKT 2011-2021 Option Scheme as at the date of listing and December 31, 2011 and no options were granted to or exercised by any directors of HKT and the trustee manager or the chief executive of HKT or employees of HKT Group or other participants nor cancelled or lapsed during the year ended December 31, 2011.

ii. Share Stapled Units award schemes of HKT

On October 11, 2011, HKT conditionally adopted two award schemes pursuant to which awards of Share Stapled Units may be made, namely the HKT Share Stapled Units Purchase Scheme and the HKT Share Stapled Units Subscription Scheme (collectively the "HKT Share Stapled Units Award Schemes").

The HKT Share Stapled Units Award Schemes are on similar terms and were conditionally adopted by HKT which became effective upon listing as a potential means to incentivize and reward the eligible participants as follows:

In the case of the HKT Share Stapled Units Purchase Scheme:

(i) any full-time or part-time employees of HKT and/or any of its subsidiaries;

(ii) any director (including executive, non-executive and independent non-executive director) of HKT and/or any of its subsidiaries.

In the case of the HKT Share Stapled Units Subscription Scheme:

The same group of potential eligible participants as referred to above except for any directors of HKT or its subsidiaries and/or any other connected persons of HKT.

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

Awards may be made by HKT Board or any committee, sub-committee or person duly delegated, such as the remuneration committee and, in the case of Share Stapled Units that are not vested or transferred as originally intended, the Trustee may hold such units and income deriving therefrom for the purpose of any eligible participants, having taken into consideration the recommendations of HKT Board.

No awards have been made or agreed to be made, under the HKT Share Stapled Units Award Schemes for the year ended December 31, 2011.

33 (DEFICIT)/RESERVES

In HK$ million	2010										
	Share premium	Special capital reserve *(note(a))*	Capital redemption reserve	Treasury stock	Employee share-based compensation reserve	Currency translation reserve	Hedging reserve	Available-for-sale financial assets reserve	Other reserve	(Deficit)/ Retained profits	Total
THE GROUP											
At January 1, 2010	7,989	12,401	3	(18)	96	577	266	66	–	(28,518)	(7,138)
Total comprehensive income for the year	–	–	–	–	–	332	(70)	17	–	1,926	2,205
Dividend paid in respect of previous year	–	(901)	–	–	–	–	–	–	–	–	(901)
Dividend declared and paid in respect of the current year	–	(370)	–	–	–	–	–	–	–	–	(370)
Issue of ordinary shares, net of issuing expenses	1,154	–	–	–	–	–	–	–	–	–	1,154
Increase in ownership interest in a subsidiary	–	–	–	–	–	–	–	–	(31)	–	(31)
At December 31, 2010	9,143	11,130	3	(18)	96	909	196	83	(31)	(26,592)	(5,081)
THE COMPANY											
At January 1, 2010	7,989	12,401	3	–	95	–	–	–	–	6,442	26,930
Total comprehensive income for the year	–	–	–	–	–	–	–	–	–	1,949	1,949
Dividend paid in respect of previous year	–	(901)	–	–	–	–	–	–	–	–	(901)
Dividend declared and paid in respect of the current year	–	(370)	–	–	–	–	–	–	–	–	(370)
Issue of ordinary shares, net of issuing expenses	1,154	–	–	–	–	–	–	–	–	–	1,154
At December 31, 2010	9,143	11,130	3	–	95	–	–	–	–	8,391	28,762

33 (DEFICIT)/RESERVES *(CONTINUED)*

In HK$ million	2011										
	Share premium	Special capital reserve *(note (a))*	Capital redemption reserve	Treasury stock	Employee share-based compensation reserve	Currency translation reserve	Hedging reserve	Available-for-sale financial assets reserve	Other reserve	(Deficit)/ Retained profits	Total
THE GROUP											
At January 1, 2011	9,143	11,130	3	(18)	96	909	196	83	(31)	(26,592)	(5,081)
Total comprehensive income for the year	–	–	–	–	–	170	(42)	98	–	1,607	1,833
Dividend paid in respect of previous year	–	(742)	–	–	–	–	–	–	–	–	(742)
Dividend declared and paid in respect of the current year	–	(385)	–	–	–	–	–	–	–	–	(385)
Special dividend in specie	–	(1,443)	–	–	–	–	–	–	–	–	(1,443)
Dilution of interest in HKT Group *(note (b))*	–	–	–	–	–	–	–	–	–	10,104	10,104
At December 31, 2011	9,143	8,560	3	(18)	96	1,079	154	181	(31)	(14,881)	4,286
THE COMPANY											
At January 1, 2011	9,143	11,130	3	–	95	–	–	–	–	8,391	28,762
Total comprehensive income for the year	–	–	–	–	–	–	–	–	–	169	169
Dividend paid in respect of previous year	–	(742)	–	–	–	–	–	–	–	–	(742)
Dividend declared and paid in respect of the current year	–	(385)	–	–	–	–	–	–	–	–	(385)
Special dividend in specie	–	(1,443)	–	–	–	–	–	–	–	–	(1,443)
At December 31, 2011	9,143	8,560	3	–	95	–	–	–	–	8,560	26,361

a. The special capital reserve was created as a result of capital reduction in 2004 where the Company applied its entire share premium balance to eliminate accumulated losses as at June 30, 2004. The special capital reserve was not treated as realized profit and (for so long as the Company remains a listed company) was treated as an undistributable reserve for the purposes of section 79C of the Hong Kong Companies Ordinance.

On January 10, 2006, the High Court of Hong Kong (the "High Court") made an order which permitted the Company to distribute dividend out of the special capital reserve providing that the Company setting aside sums totalling approximately US$544 million (approximately HK$4,243 million) and HK$106 million for the sole purpose of discharging certain debts or liabilities of the Company existing at the date of the Capital Reduction, principally being the aggregate amount of principal, accrued interest and redemption premium payable on maturity of the US$450 million 1% guaranteed convertible bonds due 2007 issued by PCCW Capital No. 2 Limited. Those amounts were set aside, and the High Court order thereby became effective, on March 27, 2006. As at December 31, 2011, the total cash set aside was approximately HK$32 million (2010: HK$32 million) and was recorded under "Restricted cash" in the balance sheet of the Company. Accordingly, as at December 31, 2011, the Company had special capital reserve, which can be distributed as dividend in accordance with above, of HK$8,560 million (2010: HK$11,130 million). Inclusive of retained profits of HK$8,560 million (2010: HK$8,391 million), the Company has total distributable reserves of HK$17,120 million (2010: HK$19,521 million).

b. As a result of the dilution of interest in HKT Group in November 2011, the Group has received proceeds of HK$9,302 million from the HKT Trust Global Offering and incurred directly attributable costs of HK$618 million. As a result, the Group has recognized a gain of HK$10,104 million to equity which represents the difference between the net proceeds of HK$8,684 million received from the dilution of interest in HKT Group and a debit balance of HK$1,420 million in non-controlling interest recorded. The non-controlling interest was calculated using the HKT Group's historical book values as recorded in the Group's consolidated financial statements as of the date of the dilution of interest in HKT Group.

34 DEFERRED INCOME TAX

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

In HK$ million	The Group 2010						
	Accelerated tax depreciation	Valuation adjustment resulting from acquisition of subsidiaries	Leasing partnership	Revaluation of properties	Tax losses	Others	Total
Beginning of year	957	281	11	(8)	–	(30)	1,211
Charged/(Credited) to consolidated income statement *(note 12(a))*	614	(31)	(11)	299	(71)	10	810
Exchange differences	10	–	–	–	–	–	10
End of year	1,581	250	–	291	(71)	(20)	2,031

In HK$ million	The Group **2011**						
	Accelerated tax depreciation	**Valuation adjustment resulting from acquisition of subsidiaries**	**Leasing partnership**	**Revaluation of properties**	**Tax losses**	**Others**	**Total**
Beginning of year	**1,581**	**250**	**–**	**291**	**(71)**	**(20)**	**2,031**
Charged/(Credited) to consolidated income statement *(note 12(a))*	**57**	**(46)**	**–**	**6**	**(3)**	**–**	**14**
Exchange differences	**16**	**–**	**–**	**13**	**–**	**–**	**29**
End of year	**1,654**	**204**	**–**	**310**	**(74)**	**(20)**	**2,074**

In HK$ million	The Group 2010	**2011**
Net deferred income tax assets recognized in the consolidated balance sheet	(78)	**(148)**
Net deferred income tax liabilities recognized in the consolidated balance sheet	2,109	**2,222**
	2,031	**2,074**

34 DEFERRED INCOME TAX *(CONTINUED)*

b. During the year, deferred income tax assets of HK$3 million (2010: HK$71 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 probable. The Group has unutilized estimated tax losses for which no deferred income tax assets have been recognized of HK$17,377 million (2010: HK$17,550 million) to carry forward for deduction against future taxable income. Estimated tax losses of HK$216 million (2010: HK$309 million) and nil (2010: HK$33 million) will expire within 1–5 years and after 5 years from December 31, 2011 respectively. The remaining portion of the tax losses, mainly relating to Hong Kong companies, can be carried forward indefinitely.

35 CARRIER LICENCE FEE LIABILITIES

As at December 31, 2011, the Group had carrier licence fee liabilities repayable as follows:

In HK$ million	The Group					
	2010			**2011**		
	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	143	11	154	**187**	**12**	**199**
– over one year, but not exceeding two years	137	24	161	**145**	**26**	**171**
– over two years, but not exceeding five years	390	153	543	**411**	**162**	**573**
– over five years	368	233	601	**259**	**141**	**400**
	1,038	421	1,459	**1,002**	**341**	**1,343**
Less: Amounts repayable within one year included under current liabilities	(143)	(11)	(154)	**(187)**	**(12)**	**(199)**
	895	410	1,305	**815**	**329**	**1,144**

36 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

In HK$ million	The Group 2010	2011
Profit before income tax	3,080	**2,318**
Adjustment for:		
Provision for inventory obsolescence	9	**10**
Interest income	(27)	**(71)**
Interest expense	1,331	**1,315**
Finance charges	247	**245**
Cash flow hedges: transferred from equity	1	**1**
Fair value losses/(gains) on derivative financial instruments on fair value hedges	88	**(198)**
Fair value adjustment of borrowings attributable to interest rate risk	(80)	**202**
Depreciation of property, plant and equipment	2,678	**2,549**
Net realized gains on disposal of available-for-sale financial assets	(10)	**–**
Realized gains from investment in available-for-sale financial assets	(21)	**–**
Net gains on cash flow hedging instruments transferred from equity	(41)	**(39)**
Fair value gains on investment properties	(1,155)	**(25)**
Provision for impairment of investments	21	**–**
Net realized gains on disposal of an associate	(1)	**–**
Impairment loss on an interest in a jointly controlled company	–	**16**
Assets and business received from the JV	–	**(644)**
Reversal of provision for rental guarantee	(2)	**–**
Loss/(gain) on disposal of property, plant and equipment	45	**(1)**
Impairment loss for doubtful debts	119	**169**
Amortization of intangible assets	1,099	**1,378**
Amortization of land lease premium		
– interests in leasehold land	23	**22**
Share of results of associates and jointly controlled companies	82	**(32)**
Negative goodwill resulted from acquisition of subsidiaries	(2)	**–**
Exchange gains	(1)	**–**
(Increase)/Decrease in operating assets		
– properties held for/under development/for sale	(162)	**259**
– inventories	140	**(190)**
– trade receivables	(218)	**(724)**
– prepayments, deposits and other current assets	(681)	**(294)**
– sales proceeds held in stakeholders' accounts	426	**213**
– restricted cash	(1,301)	**1,546**
– amounts due from related companies	6	**2**
– other non-current assets	(24)	**(49)**
(Decrease)/Increase in operating liabilities		
– trade payables, accruals and other payables and deferred income	(388)	**182**
– amount payable to the Government under the Cyberport Project Agreement	773	**(1,003)**
– amounts due to related companies	(73)	**(39)**
– other long-term liabilities	(12)	**(6)**
– advances from customers	75	**(110)**
CASH GENERATED FROM OPERATIONS	6,044	**7,002**
Interest received	21	**77**
Income tax paid, net of tax refund		
– Hong Kong profits tax paid	(100)	**(241)**
– overseas profits tax paid	(45)	**(60)**
NET CASH GENERATED FROM OPERATING ACTIVITIES	5,920	**6,778**

36 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(CONTINUED)*

b. Acquisition of subsidiaries

In HK$ million	The Group 2010	**2011**
Net assets/(liabilities) acquired:		
Property, plant and equipment	1	–
Intangible assets	2	–
Interests in jointly controlled companies	3	–
Trade receivables, prepayments, deposits and other current assets	46	–
Inventories	6	–
Cash and cash equivalents	26	–
Trade payables, accruals, other payables and advances from customers	(71)	–
Short-term borrowings	(6)	–
	7	–
Goodwill on acquisition	55	–
Negative goodwill resulted from acquisition	(2)	–
Purchase consideration	60	–
Satisfied by:		
Cash	34	–
Acquisition-related contingent consideration payable	26	–
	60	–
Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries:		
Purchase consideration settled in cash	(34)	–
Cash and cash equivalents of subsidiaries acquired	26	–
Net cash outflow in respect of acquisition of subsidiaries	(8)	–

c. Analysis of cash and cash equivalents

In HK$ million	The Group 2010	**2011**	The Company 2010	**2011**
Cash and bank balances	10,420	**6,101**	226	**119**
Bank overdrafts	(38)	**(1)**	–	–
Restricted cash	(2,281)	**(735)**	(32)	**(32)**
Cash and cash equivalents as at December 31,	8,101	**5,365**	194	**87**

37 CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders, and benefits for other stakeholders, to support the Group's stability and growth; and to earn a margin commensurate with the level of business and market risks in the Group's operation.

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

The Adjusted Capital at December 31, 2010 and 2011 was as follows:

In HK$ million	The Group	
	2010	**2011**
Equity attributable to equity holders of the Company	(3,263)	**6,104**
Add back: Accumulated deficits	26,592	**14,881**
Adjusted Capital	23,329	**20,985**

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements, except for the debt covenant requirement of the loan agreements with external parties and the minimum capital requirement of a subsidiary regulated by Bermuda Monetary Authority.

38 FINANCIAL INSTRUMENTS

The tables below analyses financial instruments by category:

In HK$ million	The Group 2010				
	Held-to-maturity investments	Loans and receivables	Derivatives used for hedging	Available-for-sale financial assets	Total
Non-current assets					
Held-to-maturity investments	2	–	–	–	2
Available-for-sale financial assets	–	–	–	281	281
Derivative financial instruments	–	–	152	–	152
Other non-current assets	–	35	–	–	35
	2	35	152	281	470
Current assets					
Sale proceeds held in stakeholders' accounts	–	845	–	–	845
Restricted cash	–	2,281	–	–	2,281
Prepayments, deposits and other current assets (excluding prepayments)	–	2,529	–	–	2,529
Amounts due from related companies	–	2	–	–	2
Derivative financial instruments	–	–	17	–	17
Trade receivables, net	–	2,529	–	–	2,529
Cash and cash equivalents	–	8,101	–	–	8,101
	–	16,287	17	–	16,304
Total	2	16,322	169	281	16,774

In HK$ million	The Group 2010		
	Derivatives used for hedging	Other financial liabilities at amortized cost	Total
Current liabilities			
Short-term borrowings	–	7,800	7,800
Trade payables	–	1,705	1,705
Accruals and other payables	–	4,005	4,005
Amount payable to the Government under the Cyberport Project Agreement	–	1,606	1,606
Carrier licence fee liabilities	–	143	143
Amounts due to related companies	–	57	57
	–	15,316	15,316
Non-current liabilities			
Long-term borrowings	–	27,041	27,041
Derivative financial instruments	102	–	102
Carrier licence fee liabilities	–	895	895
Other long-term liabilities	–	119	119
	102	28,055	28,157
Total	102	43,371	43,473

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

The tables below analyses financial instruments by category: *(continued)*

In HK$ million	The Group 2011				
	Held-to-maturity investments	**Loans and receivables**	**Derivatives used for hedging**	**Available-for-sale financial assets**	**Total**
Non-current assets					
Held-to-maturity investments	**2**	**–**	**–**	**–**	**2**
Available-for-sale financial assets	**–**	**–**	**–**	**575**	**575**
Derivative financial instruments	**–**	**–**	**275**	**–**	**275**
Other non-current assets	**–**	**41**	**–**	**–**	**41**
	2	**41**	**275**	**575**	**893**
Current assets					
Sale proceeds held in stakeholders' accounts	**–**	**632**	**–**	**–**	**632**
Restricted cash	**–**	**735**	**–**	**–**	**735**
Prepayments, deposits and other current assets (excluding prepayments)	**–**	**2,626**	**–**	**–**	**2,626**
Trade receivables, net	**–**	**3,084**	**–**	**–**	**3,084**
Cash and cash equivalents	**–**	**5,365**	**–**	**–**	**5,365**
	–	**12,442**	**–**	**–**	**12,442**
Total	**2**	**12,483**	**275**	**575**	**13,335**

In HK$ million	The Group 2011	
	Other financial liabilities at amortized cost	**Total**
Current liabilities		
Short-term borrowings	**40**	**40**
Trade payables	**1,777**	**1,777**
Accruals and other payables	**4,134**	**4,134**
Amount payable to the Government under the Cyberport Project Agreement	**603**	**603**
Carrier licence fee liabilities	**187**	**187**
Amounts due to related companies	**27**	**27**
	6,768	**6,768**
Non-current liabilities		
Long-term borrowings	**23,470**	**23,470**
Carrier licence fee liabilities	**815**	**815**
Other long-term liabilities	**120**	**120**
	24,405	**24,405**
Total	**31,173**	**31,173**

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

The tables below analyses financial instruments by category: *(continued)*

In HK$ million	The Company Loans and receivables 2010	**2011**
Current assets		
Amounts due from subsidiaries	18,262	**17,423**
Restricted cash	32	**32**
Prepayments, deposits and other current assets (excluding prepayments)	9	**9**
Cash and cash equivalents	194	**87**
Total	18,497	**17,551**

In HK$ million	The Company Other financial liabilities at amortized cost 2010	**2011**
Current liabilities		
Accruals and other payables	7	**19**
Total	7	**19**

Exposures to credit, liquidity, and market (including foreign currency, interest rate) risks arise in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities. Exposures to these risks are controlled by the Group's financial management policies and practices described below.

a. Credit risk

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

Trade receivables in respect of properties sold are payable by the purchasers pursuant to the terms of the sales contracts. Other trade receivables have a normal credit period ranging up to 30 days from the date of invoice unless there is a separate mutual agreement on extension of the credit period. The Group maintains a well-defined credit policy and individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors who have overdue payable are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers. As at December 31, 2010 and 2011, the Group did not have a significant exposure to any individual debtors or counterparties.

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

Amounts due from related companies and other receivables are continuously monitored by assessing the credit quality of the counterparty, taking into account its financial position, past experience and other factors. Where necessary, impairment loss is made for estimated irrecoverable amounts. As at December 31, 2010 and 2011, the amounts due from related companies and other receivables were fully performing.

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

a. Credit risk *(continued)*

Investments, derivative financial instruments, interest receivable and cash transactions are executed with financial institutions or investment counterparties with sound credit ratings and the Group does not expect any significant counterparty risk. Moreover, credit limits are set for individual counterparties and periodic reviews are conducted to ensure that the limits are strictly followed.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the consolidated balance sheet. Except for the guarantees given by the Group as disclosed in note 40, the Group does not provide any other guarantees which would expose the Group to credit risk.

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 2010					
	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years	Total contractual undiscounted cash outflow	Carrying amount
Current liabilities						
Short-term borrowings	(8,336)	–	–	–	(8,336)	(7,800)
Trade payables	(1,705)	–	–	–	(1,705)	(1,705)
Accruals and other payables	(4,005)	–	–	–	(4,005)	(4,005)
Amount payable to the Government under the Cyberport Project Agreement	(1,606)	–	–	–	(1,606)	(1,606)
Carrier licence fee liabilities	(154)	–	–	–	(154)	(143)
Amounts due to related companies	(57)	–	–	–	(57)	(57)
	(15,863)	–	–	–	(15,863)	(15,316)
Non-current liabilities						
Long-term borrowings	(753)	(763)	(19,880)	(8,931)	(30,327)	(27,041)
Derivative financial instruments	63	39	(120)	(103)	(121)	(102)
Carrier licence fee liabilities	–	(161)	(543)	(601)	(1,305)	(895)
Other long-term liabilities	(3)	(20)	(70)	(48)	(141)	(119)
	(693)	(905)	(20,613)	(9,683)	(31,894)	(28,157)
Total	(16,556)	(905)	(20,613)	(9,683)	(47,757)	(43,473)

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Liquidity risk *(continued)*

In HK$ million	The Group 2011					
	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years	Total contractual undiscounted cash outflow	Carrying amount
Current liabilities						
Short-term borrowings	(42)	–	–	–	(42)	(40)
Trade payables	(1,777)	–	–	–	(1,777)	(1,777)
Accruals and other payables	(4,134)	–	–	–	(4,134)	(4,134)
Amount payable to the Government under the Cyberport Project Agreement	(603)	–	–	–	(603)	(603)
Carrier licence fee liabilities	(199)	–	–	–	(199)	(187)
Amounts due to related companies	(27)	–	–	–	(27)	(27)
	(6,782)	–	–	–	(6,782)	(6,768)
Non-current liabilities						
Long-term borrowings	(686)	(8,750)	(16,011)	–	(25,447)	(23,470)
Carrier licence fee liabilities	–	(171)	(573)	(400)	(1,144)	(815)
Other long-term liabilities	(4)	(28)	(58)	(64)	(154)	(120)
	(690)	(8,949)	(16,642)	(464)	(26,745)	(24,405)
Total	(7,472)	(8,949)	(16,642)	(464)	(33,527)	(31,173)

In HK$ million	The Company					
	2010			2011		
	Within 1 year or on demand	Total contractual undiscounted cash outflow	Carrying amount	Within 1 year or on demand	Total contractual undiscounted cash outflow	Carrying amount
Current liabilities						
Accruals and other payables	(7)	(7)	(7)	(19)	(19)	(19)
Total	(7)	(7)	(7)	(19)	(19)	(19)

c. Market risk

Market risk composed of foreign currency, interest rate and equity price exposure deriving from the Group's operation, investment and funding activities. As a matter of policy, the Group enters into cross currency swap contracts and other financial instruments to manage its exposure to market risk directly related to its operations and financing. The Group does not undertake any speculative trading activities in connection with these financial instruments or enter into or acquire market risk sensitive instruments for trading purposes.

The Group determines the appropriate risk management activities with the aim of prudently managing the market risk associated with transactions entered into in the normal course of business.

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

All treasury risk management activities are carried out in accordance with policies and guidelines approved by the Group, which are reviewed on a regular basis. Early termination and amendments to the terms of the transaction would typically occur when there are changes in the underlying assets or liabilities or in the risk management strategy of the Group.

In the normal course of business, the Group uses the above-mentioned financial instruments to limit its exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions and all contracts are denominated in currencies of major industrial countries.

i. Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises when the Group's recognized assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group's borrowings are mainly denominated in either Hong Kong dollars or United States dollars. As at December 31, 2010 and 2011, majority of the Group's short-term and 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. Certain portion of the cross currency swap contracts outstanding as at December 31, 2011 with an aggregate notional contract amount of US$1,500 million (approximately HK$11,664 million) (2010: US$2,500 million (approximately HK$19,454 million)) were designated as cash flow hedges against foreign exchange rate risk.

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

The following 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			
	2010		**2011**	
	United States Dollars	Chinese Renminbi	**United States Dollars**	**Chinese Renminbi**
Trade receivables	578	331	**710**	**412**
Cash and cash equivalents	1,491	651	**1,246**	**1,011**
Trade payables	(752)	(172)	**(619)**	**(187)**
Amounts due to related companies	(64)	–	**(39)**	**–**
Short-term borrowings	(7,800)	–	**(31)**	**(9)**
Long-term borrowings	(11,518)	(12)	**(11,729)**	**–**
Gross exposure arising from recognized financial (liabilities)/assets	(18,065)	798	**(10,462)**	**1,227**
Net financial liabilities denominated in respective entities' functional currencies	(67)	(808)	**(60)**	**(1,230)**
Notional amounts of cross currency swap contracts designated as cash flow hedges	19,454	–	**11,664**	**–**
Overall net exposure	1,322	(10)	**1,142**	**(3)**

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

i. Foreign currency risk *(continued)*

As at December 31, 2011, 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$10 million (2010: HK$11 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, 2011 would have been increased/decreased by approximately HK$117 million (2010: HK$195 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, 2011, 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 years ended December 31, 2010 and 2011.

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 2010.

ii. Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises primarily from short-term and long-term borrowings. Borrowings at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. In addition, from time to time, the Group draws under long-term revolving credit and term facilities which are denominated in Hong Kong dollars and pays interest at floating rate.

The Group has entered into fixed-to-floating cross currency swap contracts to hedge the fair value interest rate risk arising from certain of its fixed rate long-term borrowings.

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

ii. Interest rate risk *(continued)*

The following table details the interest rate profile of the Group's borrowings at the balance sheet date, after taking into account the effect of cross currency swap contracts designated as cash flow and fair value hedging instruments.

In HK$ million, except for %	The Group			
	2010		**2011**	
	Effective interest rate %		**Effective interest rate %**	
Net fixed rate borrowings:				
Short term borrowings with cash flow hedging instruments	7.93	7,772	**–**	**–**
Long term borrowings with cash flow hedging instruments	5.77	7,745	**5.77**	**7,748**
		15,517		**7,748**
Variable rate borrowings:				
Bank borrowings	1.59	15,551	**1.45**	**11,783**
Long term borrowings with fair value hedging instruments	4.46	3,773	**4.46**	**3,979**
		19,324		**15,762**
Total borrowings		34,841		**23,510**

At December 31, 2011, 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$11 million (2010: HK$8 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 2010.

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.

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

d. Fair values

All financial instruments are carried at amounts not materially different from their fair values as at December 31, 2010 and 2011 except as follows, with fair value calculated by quoted prices:

In HK$ million	The Group			
	2010		**2011**	
	Carrying amount	Fair value	**Carrying amount**	**Fair value**
Short-term borrowings	(7,800)	(8,220)	**(40)**	**(40)**
Long-term borrowings	(27,041)	(27,693)	**(23,470)**	**(23,861)**

e. Estimation of fair values

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

The following table presents the Group's assets and liabilities that are measured at fair value at December 31, 2011:

In HK$ million	The Group 2010			
	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets				
– Listed equity securities	56	–	–	56
– Unlisted equity securities	–	–	225	225
Derivative financial instruments (non-current)	–	152	–	152
Derivative financial instruments (current)	–	17	–	17
Total assets	56	169	225	450
Liabilities				
Derivative financial instruments (non-current)	–	(102)	–	(102)

In HK$ million	The Group **2011**			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Available-for-sale financial assets				
– Listed equity securities	**78**	**–**	**–**	**78**
– Unlisted equity securities	**–**	**–**	**497**	**497**
Derivative financial instruments (non-current)	**–**	**275**	**–**	**275**
Total assets	**78**	**275**	**497**	**850**

38 FINANCIAL INSTRUMENTS *(CONTINUED)*

e. Estimation of fair values *(continued)*

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.

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 following table presents the changes in level 3 instruments for the year ended December 31, 2011:

In HK$ million	The Group **Available-for-sale financial assets – unlisted equity securities**	
	2010	**2011**
Opening balance	266	**225**
Additions	28	**229**
Return of investment	(64)	**–**
Disposals	–	**(31)**
Unrealized fair value gains transferred to equity	16	**74**
Impairment loss recognized	(21)	**–**
	225	**497**

The estimated fair value of level 3 financial assets as at December 31, 2011 was HK$497 million (2010: HK$225 million).

39 COMMITMENTS

a. Capital

In HK$ million	The Group 2010	2011
Authorized and contracted for	1,075	**1,412**
Authorized but not contracted for	1,007	**968**
	2,082	**2,380**

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

In HK$ million	The Group 2010	2011
Investments	104	**285**
Investment properties	7	**40**
Property development	67	**86**
Acquisition of property, plant and equipment	1,903	**1,968**
Others	1	**1**
	2,082	**2,380**

b. Operating leases

As at December 31, 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

Land and buildings

In HK$ million	The Group 2010	2011
Within 1 year	676	**753**
After 1 year but within 5 years	1,008	**1,008**
After 5 years	363	**308**
	2,047	**2,069**

Network capacity and equipment

In HK$ million	The Group 2010	2011
Within 1 year	348	**391**
After 1 year but within 5 years	354	**348**
After 5 years	62	**155**
	764	**894**

Majority of the leases typically run for a period of 1 to 14 years. None of the leases include contingent rentals.

39 COMMITMENTS *(CONTINUED)*

c. Others

As at December 31, 2011, the Group has other outstanding commitments as follows:

In HK$ million	The Group 2010	**2011**
Purchase of rights to broadcast certain TV content	1,030	**1,075**
Operating expenditure commitment	248	**237**
Others	2	**–**
	1,280	**1,312**

40 CONTINGENT LIABILITIES

In HK$ million	The Group 2010	**2011**	The Company 2010	**2011**
Performance guarantee	377	**444**	5	**172**
Tender guarantee	11	**1**	–	**–**
Guarantee in lieu of cash deposit	4	**4**	2	**2**
Employee compensation	6	**3**	6	**3**
Guarantee indemnity	11	**11**	–	**–**
Others	12	**12**	–	**–**
	421	**475**	13	**177**

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

41 BANK LOAN FACILITIES

Aggregate bank loan facilities as at December 31, 2011 were HK$23,851 million (2010: HK$30,320 million) of which the unused facilities amounted to HK$11,955 million (2010: HK$14,486 million).

A summary of major borrowings is set out in notes 26(f) and 27.

Security pledged for certain bank loan facilities includes:

In HK$ million	The Group 2010	**2011**
Property, plant and equipment	72	**67**
Investment properties	5,074	**5,370**
Trade receivables	44	**37**
Bank deposit	3	**2**
	5,193	**5,476**

42 BUSINESS COMBINATIONS

a. Business combinations for the year ended December 31, 2011

There was no business combination transaction occurred for the year ended December 31, 2011.

b. Business combinations for the year ended December 31, 2010

i. Acquisition of UKB Solutions Limited and UKB Wireless Solutions Limited (formerly known as 802 Global Limited)

On May 14, 2010, the Group acquired 100 per cent of the share capital of UKB Solutions Limited and UKB Wireless Solutions Limited, companies incorporated in the United Kingdom. The acquirees' business covers the supply, design and distribution of wireless network solutions. The Group made an initial payment for acquisition totaling HK$34 million in cash and may potentially have to make additional payments totaling up to HK$41 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 approximately HK$26 million at the date of acquisition and has been included in the purchase price of UKB Solutions Limited and UKB Wireless Solutions Limited.

As at December 31, 2011, there was no change in the estimate of the contingent consideration payable after a review on the estimate of the future financial result of the acquirees.

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. The initial accounting for the acquisition of UKB Solutions Limited and UKB Wireless Solutions Limited is complete as at December 31, 2011, and the fair values of the acquirees' identifiable assets, liabilities and contingent liabilities are concluded to be the same as their carrying amounts as at the acquisition date. As a result, no adjustment to the provisional amounts and goodwill for the year ended December 31, 2011 are required.

(i) Details of net assets acquired and goodwill in respect of acquisitions of the wireless network solution operations at the acquisition date were as follows:

In HK$ million

	Net assets acquired and goodwill
Purchase consideration settled in cash	34
Contingent consideration payable	26
Purchase consideration	60
Less: Fair value of net assets acquired	(5)
Goodwill on acquisition *(note 20)*	55

The goodwill is attributable to future profit generated from the wireless network solution operations.

The carrying amounts of assets and liabilities of the wireless network solution operations at the acquisition date were as follows:

In HK$ million

	Fair value	Carrying Amount
Property, plant and equipment	1	1
Intangible assets	2	2
Trade receivables, prepayments, deposits and other current assets	35	35
Inventories	6	6
Trade payables, accruals and other payables	(33)	(33)
Short-term borrowings	(6)	(6)
Net assets acquired	5	5

42 BUSINESS COMBINATIONS *(CONTINUED)*

b. Business combinations for the year ended December 31, 2010 *(continued)*

i. Acquisition of UKB Solutions Limited and UKB Wireless Solutions Limited (formerly known as 802 Global Limited) *(continued)*

In HK$ million

	Net cash outflow
Purchase consideration settled in cash	(34)
Cash and cash equivalents of wireless network solution operations acquired	–
Cash outflow on acquisition of wireless network solution operations *(note 36(b))*	(34)

(ii) Acquisition-related costs

Acquisition-related costs of HK$2 million are included in the consolidated income statement for the year ended December 31, 2010.

(iii) Revenue and profit contribution

The acquired business contributed revenue of HK$26 million and resulted in a net loss of HK$5 million to the Group for the period from the date of acquisition to December 31, 2010. If the acquisition had occurred on January 1, 2010, the acquired business's revenue would have been HK$43 million, and net loss for the year ended December 31, 2010 would have been HK$6 million.

ii. Acquisition of PC Music Holdings Limited and its subsidiaries and jointly controlled companies (together the "PC Music Group")

The Group acquired 100 per cent of the share capital of PC Music Holdings Limited, a company incorporated in the British Virgin Islands with a consideration of HK$1 on the effective acquisition date of September 30, 2010. The business of the PC Music Group covers the marketing, distribution and licensing of audio and visual musical concert content and music copyrights and agency services to artists and organizing and producing music concerts and shows primarily in Hong Kong.

(i) Details of net assets acquired and goodwill in respect of acquisition of PC Music Group at the acquisition date were as follows:

In HK$ million	Net assets acquired and goodwill
Purchase consideration	–
Less: Fair value of net assets acquired	(2)
Negative goodwill resulted from acquisition	(2)

The negative goodwill has been recognized in other gains, net in the consolidated income statement.

The assets and liabilities of the PC Music Group at the acquisition date were as follows:

In HK$ million

	Fair value	Carrying Amount
Interests in jointly controlled companies	3	3
Trade receivables, prepayments, deposits and other current assets	11	44
Cash and cash equivalents	26	26
Trade payables, accruals and other payables	(21)	(21)
Advances from customers	(17)	(17)
Net assets acquired	2	35

42 BUSINESS COMBINATIONS *(CONTINUED)*

b. Business combinations for the year ended December 31, 2010 *(continued)*

ii. Acquisition of PC Music Holdings Limited and its subsidiaries and jointly controlled companies (together the "PC Music Group") *(continued)*

In HK$ million	Net cash inflow
Purchase consideration settled in cash	–
Cash and cash equivalents of PC Music Group acquired	26
Cash inflow on acquisition of PC Music Group *(note 36(b))*	26

(ii) Acquisition-related costs

Acquisition-related costs included in the consolidated income statement are insignificant.

(iii) Revenue and profit contribution

The acquired business contributed revenue of HK$12 million and resulted in a net profit of HK$1 million to the Group for the period from the date of acquisition to December 31, 2010. If the acquisition had occurred on January 1, 2010, the acquired business's revenue would have been HK$50 million, and net profit for the year ended December 31, 2010 would have been HK$4 million.

43 TRANSACTION WITH NON-CONTROLLING INTERESTS

a. Transaction with non-controlling interests for the year ended December 31, 2011

In November 2011, the Group's interest in the HKT Group was diluted upon the completion of the HKT Trust Global Offering. This dilution of interest in HKT Group represents a transaction with non-controlling interests and was treated as a transaction with equity owners.

b. Transaction with non-controlling interests for the year ended December 31, 2010

On December 23, 2010, the Group acquired an additional 15% of the issued shares of Interactive Teleservices Corporation (now known as PCCW Teleservices (US), Inc.), a subsidiary of IP BPO Holdings Pte. Ltd. for a purchase consideration of approximately HK$31 million. The carrying amount of the non-controlling interests in Interactive Teleservices Corporation on the date of acquisition was nil. The Group recognized a decrease in equity attributable to the equity holders of the Company of HK$31 million. The effect of changes in the ownership interest of Interactive Teleservices Corporation on the equity attributed to the equity holders of the Company during the year ended 31 December, 2010 is summarized as follows:

In HK$ million	2010	**2011**
Consideration paid to non-controlling interests for an increase in ownership interest in a subsidiary	31	**–**
Less: Carrying amount of non-controlling interests acquired	–	**–**
Excess of consideration paid in the transactions with non-controlling interests recognized within equity	31	**–**

44 POSSIBLE IMPACT OF AMENDMENTS, NEW OR REVISED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2011

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, 2011 and which have not been adopted in these financial statements:

		Effective for accounting periods beginning on or after
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards	July 1, 2011
HKFRS 7 (Amendment)	Financial Instruments: Disclosure	July 1, 2011
HKAS 12 (Amendment)	Income Taxes	January 1, 2012
HKAS 1 (Revised) (Amendment)	Presentation of Financial Statements	July 1, 2012
HKFRS 10	Consolidated Financial Statements	January 1, 2013
HKFRS 11	Joint Arrangements	January 1, 2013
HKFRS 12	Disclosure of Interests in Other Entities	January 1, 2013
HKFRS 13	Fair Value Measurement	January 1, 2013
HKAS 19 (2011)	Employee Benefits	January 1, 2013
HKAS 27 (2011)	Separate Financial Statements	January 1, 2013
HKAS 28 (2011)	Investments in Associates and Joint Ventures	January 1, 2013
HKFRS 9	Financial Instruments	January 1, 2015

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, 2011 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, 2011

Results In HK$ million	2007	2008	2009	2010	**2011**
Turnover	23,715	31,951	25,077	22,962	**24,638**
Cost of sales	(10,538)	(17,850)	(12,254)	(10,533)	**(11,397)**
General and administrative expenses	(9,144)	(10,005)	(9,029)	(8,924)	**(9,604)**
Other (losses)/gains, net	(3)	(464)	168	1,217	**143**
Losses on property, plant and equipment	(7)	(103)	(61)	–	**–**
Interest income	429	197	18	27	**71**
Finance costs	(1,658)	(1,473)	(1,485)	(1,587)	**(1,565)**
Share of results of equity accounted entities	13	11	(55)	(82)	**32**
Impairment losses (recognized)/reversed on interests in associates and jointly controlled companies	–	(31)	1	–	**–**
Profit before income tax	2,807	2,233	2,380	3,080	**2,318**
Income tax	(970)	(711)	(585)	(756)	**(542)**
Profit for the year	1,837	1,522	1,795	2,324	**1,776**
Attributable to:					
Equity holders of the Company	1,503	1,272	1,506	1,926	**1,607**
Non-controlling interests	334	250	289	398	**169**

Assets and Liabilities As at December 31, in HK$ million	2007	2008	2009	2010	**2011**
Total non-current assets	29,797	29,535	27,934	29,387	**30,909**
Total current assets	21,560	27,070	17,049	18,746	**14,941**
Total current liabilities	(26,145)	(16,723)	(9,827)	(17,744)	**(10,747)**
Net current (liabilities)/assets	(4,585)	10,347	7,222	1,002	**4,194**
Total assets less current liabilities	25,212	39,882	35,156	30,389	**35,103**
Total non-current liabilities	(20,861)	(34,982)	(37,181)	(30,997)	**(27,523)**
Net assets/(liabilities)	4,351	4,900	(2,025)	(608)	**7,580**

Distributable Reserves of the Company As at December 31, in HK$ million	2007	2008	2009	2010	**2011**
Distributable reserves of the Company	46,604	27,584	18,843	19,521	**17,120**

SCHEDULE OF PRINCIPAL PROPERTIES

Year 2011

Property	Classification	Status	Existing Use	Gross Site Area (sq.m.)	Gross Floor Area (sq.m.)	Lease Term*	Group's Interest
The PRC							
Pacific Century Place, No.2A Gong Ti Bei Lu, Chaoyang District, Beijing, the PRC							
Tower A (except part of 6th, 8th, 10th and 13th Floor for own use)	Investment properties	Existing	Office for lease	27,028	40,077	Medium	62%
Tower B	Investment properties	Existing	Office for lease		17,558	Medium	62%
Tower C	Investment properties	Existing	Residential		21,307	Long	62%
Tower D	Investment properties	Existing	Residential		10,034	Long	62%
Podium	Investment properties	Existing	For lease		75,431	Medium	62%
Car parking spaces	Investment properties	Existing	For lease		796 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	520	Medium	100%

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

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